

JUNE 1980

Nation's Business

the business advocate magazine

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For more information about Dale Carnegie Courses, write for a free copy of our 5-Course brochure, which gives you more information on the methods and objectives of each Course. Or call toll-free (800) 231-5800. In Texas only, call toll-free (800) 392-2424.



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Nation's Business



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Olivetti Break-through

The world's smallest electronic printer will never run out of paper, ink or batteries thanks to Olivetti, JS&A and some incredible new technology.



The new pocket-sized Olivetti calculator slides open to unveil one of the most advanced printing heads ever developed.

It's a major breakthrough. That calculator shown above is the most advanced printing calculator in the world.

SLIP TOP PRINTER

The new Olivetti Logos 9 is only 1" x 2 1/2" x 4 1/4" - smaller than many cigarette packages. It has a full 12-digit liquid crystal display with add mode and full-floating or fixed position decimal.

To turn the unit into a printer, you simply slide up the top of the unit to expose the world's smallest and one of the most precise printing heads. The printing head prints letters and numbers, identifies each entry and even clearly separates groups of three: whole numbers for easy readability.

PLENTY MORE

If its size and printing head are breakthroughs, so is its paper system. The paper is loaded in special cartridges with enough paper per cartridge for 1300 entries. All you do is simply pop a cartridge into the bottom of the unit each time you change rolls. It's the most convenient way ever designed to change a roll of paper for a printing calculator.

But if you're like most Americans, you'd be concerned about paper supply. Where do you get those special cartridges, and how do you know if you can get them years from now?

That's where JS&A comes in. A 32-roll supply - all you'll ever need for three full years - is only \$16. That's enough paper for 41,000 entries or approximately 52 line entries each working day for three full years.

But even more important, within one year stationery stores will stock the cartridges, and we predict that the Olivetti cartridge will become a standard in the industry.

NO INK CARTRIDGES

The paper is a new type that looks exactly like conventional paper. But the paper, when struck, leaves a clear sharp image without the use of ink. So there's no messy cartridge required and no space needed to store one. You'll never need ink again.

The rechargeable batteries last for 8,000 lines when you use just the printer and 80 hours using just the liquid crystal display. The batteries can be recharged 500 times, so theoretically the batteries should last for 300 rolls of paper, or more than nine times the life of your paper supply. The batteries can also be easily replaced.

POWERFUL COMPUTER

The features looked great. The world's smallest size, the paper roll convenience, the no-ink system, the battery life and the large 12-digit liquid crystal display were enough to convince us, but would the new Olivetti be considered a toy? Then we learned about its computational power and features which we feel are better than many of the most professional full-featured printing calculators.

Speed It's the world's fastest small printer with a speed of 2.1 lines per second. The unit also has a buffer so if you enter data faster than the unit, it will still print out each entry.

Memories The Logos 9 has two separate memories. One is an accumulating memory, and the other is a fully independent memory. And the display and printer indicate which memory is on the paper tape.

Printing Head The totally new printing head is a semi-alpha numeric system which labels all entries with letters to indicate the entry. For example LP is list price and CNT means item count.

Clock The unit is so complete, Olivetti even threw in a digital clock function. Your unit will display accurate time when the 12-digit display is not in use.

Gross Margin It automatically computes everything from gross margins to discounts and retail pricing. You just enter your percentage mark-ups in its memory, and it will automatically compute the results while retaining the formula and percentage in memory.

Plus More It has automatic round off, letting you select which figure to round off to. You can add a column of figures and then average your calculations automatically. The full-information liquid crystal display will tell you everything from when you're in the printer mode to whether you have something in memory and in which memory.

The technological breakthroughs in the Logos 9 were possible because Olivetti was able to eliminate the many interface components between the integrated circuit and the printing head. This was all made possible because Olivetti designed the entire system, not just a few of the components as is the case with most calculators.

So there it was. Great features, great convenience and great value for only \$89.95 complete with batteries, charger and 90-day limited warranty. For \$16 more, you can get 32

cartridges - all the paper you'll ever need for three years or for \$10 more you can get 16 cartridges. So impressed are we with the Olivetti Logos 9 that we are making the following offer.

FREE TRIAL OFFER

We urge you to test the Olivetti Logos 9 now. Order one for our 30-day no obligation trial. See the clear and easy-to-read paper tape and display. Use it as a pocket calculator, and carry it in your briefcase wherever you go. Experience the convenience of always having a printing calculator there whenever you need a permanent record of your transactions.

After 30-days of actual use, decide if you want to keep it. If you do you'll own the smallest, most advanced and convenient pocket printing calculator in the world. If for any reason you're not completely satisfied, simply return your unit within 30-days for a prompt and courteous refund, including your \$2.50 postage and handling. You can't lose.

Olivetti selected JS&A to exclusively introduce this exciting new product. With its solid-state design and high quality printing mechanism, the Olivetti should not require service. But if service is ever required, Olivetti maintains a convenient service-by-mail center as close as your mailbox.

To order your unit for our trial, simply send your money order or personal check for \$89.95 plus \$2.50 for postage and handling (personal check orders, allow 20 days to clear our bank) to the address below, or credit card buyers may call our toll-free number below. Add \$16 for 32 paper cartridges or \$10 for 16 cartridges. (Illinois residents please add 6% sales tax.)

Who would have imagined a printing calculator this small and this convenient with this much computational power just a few months ago? The Olivetti Logos 9 deserves your test. Order one at no obligation, today.

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DON'T TURN YOUR BACK ON WATS BECAUSE YOU THINK IT'S ONLY FOR THE BIGGIES.

If you think WATS lines are only for the big boys, it's time to take another look. Because you don't have to be one of the Fortune 500 to make WATS a profitable addition to your business. If you deal with out-of-town customers, WATS could be for you.

WATS works because you can choose a Long Distance calling area as close as your own state and those that adjoin it. And as your business area grows, you can add contiguous WATS calling areas to coincide with the locations of your customers and sources.

What's WATS

WATS stands for Wide Area Telecommunications Service. It's a way to tailor Long Distance to your special needs. You buy a specific area, and a specific number of hours, at a monthly fee. You can use those hours whenever you choose. Within that area, and within those hours, you make as many Long Distance calls as you wish.

This means you can limit your Long Distance costs without limiting your Long Distance calls.

Why WATS

Imagine the ways a WATS line can power-pack your business effort.

WATS helps you beef up business to those tempting smaller accounts that might otherwise be too far out of the way. Sell 'em by phone, and save costly travel expenses!

How about collecting overdue accounts? Use WATS to improve your cash flow and operating expense positions. Unlimited phone contact also helps you avoid the high costs of inventory outages, and it's a boon to your customer service efforts.

Can WATS help your business? You bet it can!

Choose your area of coverage

It's simple. If your company's market takes in the region surrounding your home state, make that your



WATS calling area. Is your market more extensive? Then add additional, contiguous calling areas until your market coverage is complete.

Are you trying to expand your market? Don't plod blindly into that field. Make phone forays first. We can add adjoining regions into your WATS calling area any time, helping you to eliminate a lot of expense in a new business drive.

The big boys might need a calling area that includes all fifty states. You can choose the states that suit your business best!

Choose the time volume you need

You can also choose *when* to call!

If your needs are small, select our WATS 10 (Measured Time) plan: up to 10 hours of calling per month. Want more? Then WATS 240 (Full Business Day) is for you: up to 240 hours of unlimited calling per month. Need overtime? You've got it! And it's billed at a lower rate than the monthly charge.

Anything else? There's the usual one-time installation charge.

And that's the whole ball of wax.

30-day trial

Want to test the WATS waters before you jump? Give WATS a 30-day try. Buy a month of WATS, and see for yourself just how much it will help your business. All types of businesses use WATS to solve all types of business problems. Let a WATS line help you!

Here's more help

In addition to WATS, Bell has all these programs to help you manage your business better.

#1 800 Service. Generate direct response leads using the toll-free 800 number. Improve service, speed orders to wholesalers, retailers. Expand market area, answer consumer questions, conduct product research, improve company image.

#3 Remote Call Forwarding (RCF). Customers dial a local number, reach you in a distant city. You have a local "presence" without the expense of a local office. Lets you open new markets, test out those new markets and give better service.

#4 Selling Smaller Accounts. Instead of visiting distant accounts, sell by Long Distance. Reduce the cost of making the sale. Sell more accounts. Reach customers at the point where lowered inventory prompts them to buy.

#5 Improving Credit Management. It's the key to cash flow—programs that expand your market, develop customers, build profits. Helps you check the customer's ability to pay, calculate marginal risk, and collect overdue accounts.

#6 Opening New Accounts. A tested, practical way to do it by Long Distance. Total program covers everything from building a list and screening a prospect's interest to closing the sale.



Bell System

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A BELL BUSINESS EXPERT WILL TALK TO YOU. You can expect to have a relaxed, friendly talk. You'll discover whether WATS can be a practical, profitable plus for your business. To help you, we'll need information. So we'll ask questions, like the ones listed below. No surprises, nothing you won't have the answer to. You'll find the discussion thoroughly enlightening and enjoyable.



"Hey! Tell me how a WATS line can help me manage my business better."

- Q. What is your product or service?
- Q. How many accounts do you sell or service?
- Q. What geographic area do they cover?
- Q. How many locations does your business have?
- Q. How many sales people do you have?

- Q. What is your primary method of customer contact?

- Q. Do you use services other than your local lines, such as RCF?
- Q. How do you test or expand market areas?
- Q. On the average, how many accounts fall past due each month?
- Q. Do you have plans to meet specific business objectives—such as increasing market share?

OR WRITE.

Fill in below or attach your business card and mail.

Bell System Sales Center
811 Main Street, P.O. Box 549
Kansas City, Missouri 64141

Yes, I am interested. Tell me more about:

- ☐ #2 WATS Lines For Small and Medium Businesses

I would also like to know more about the subjects I've checked below.

- ☐ #1 800 Service
- ☐ #3 Remote Call Forwarding
- ☐ #4 Selling Smaller Accounts
- ☐ #5 Improving Credit Management
- ☐ #6 Opening New Accounts

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Area Code _____ Business Phone _____

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To call toll free, dial 800-821-2121, Ext. 953, anywhere in the contiguous United States. In Missouri, call 800-892-2121, Ext. 953.



Bell System

Two words define Ohio Scientific small business computers: Cost effective.

There is no need to spend an exorbitant amount on the computer you need today. Or expanding it later. One of these systems, carried by 350 dealers nationwide, will suit you today and tomorrow.



Word processing, plus.

Plus is the operative word. You can pay \$14,000 for a system, and just get word processing capability. This system, at half the cost, provides accounting and information management functions as well. Here's what Ohio Scientific brings you:

- C2-OEM Computer with full business configuration standard, in a table-top work station
- 48K byte capacity
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UNDER \$7,000

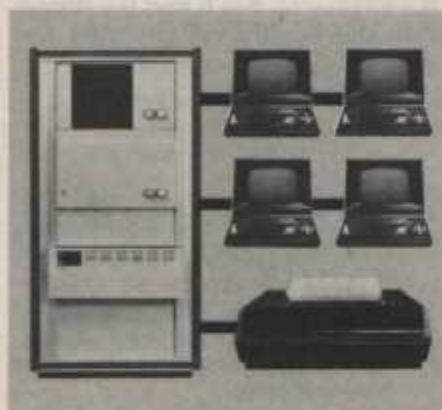


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This Ohio Scientific system will easily handle all the records of a \$10 million company. Its 23 million byte hard disk stores a full year's records. Information most other systems would have to store on dozens of floppy disks. Accounts receivable, Accounts payable, C/R, C/D, General Ledger, P&L, Inventory, Payroll Order Entry... the works!

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- CRT Terminal
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- Hard disk manager
- Complete business accounting software

UNDER \$16,000



A 4-user timeshare system.

This multi-programming, timeshare system offers complete Information Management and Accounting functions. Its 74-million bytes of on-line, hard disk storage can handle all the inventory, purchasing, accounting and sales information needed by a medium-sized business. This Ohio Scientific system is a truly cost effective way to computerize your operations. And includes:

- C3-B computer with 52K static RAM, 3 processors, to handle virtually any program language, and ultra-fast CPU
- 74 Mbyte hard disk
- Dual 8" floppies
- Four CRT Terminals
- 120 line per minute printer
- Data Base Manager, full accounting functions, inventory control, purchasing, personnel and payroll records

UNDER \$25,000

For literature and the name of your local dealer, CALL 1-800-321-6850 TOLL FREE.

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All Ohio Scientific small business computers can be networked to virtually unlimited capacity.

The Nation's Business WASHINGTON LETTER

► **PAPERWORK BUDGET** is being planned by Carter administration officials to force paperwork reduction on recalcitrant bureaucracy. Would work like this: Agencies decide on new initiatives for forthcoming fiscal years, then estimate how many hours of additional paperwork these measures would impose on private sector. That figure is submitted to Office of Management and Budget. OMB consolidates estimates and considers whether total constitutes an excessive burden. If so, total is reduced, and each agency is notified how far it must trim its plans.

► **QUANTITY OF FEDERAL PUBLICATIONS** now exceeds annual production of books and periodicals from entire U. S. publishing industry, according to Congressional Information Service, Inc., of Washington, D. C., which provides indexing and retrieval service for federal data. Congress alone publishes one million pages of information a year, says service. That's twice what lawmakers were churning out 10 years ago.

► **IN EFFORT TO BLOCK SCHWEIKER OSHA** reform bill, AFL-CIO has been circulating list of fatalities and injuries occurring during 1978 at workplaces that would be classed as safe under terms of bill. Forty-one percent of sites where fatalities occurred would have been exempt from inspection, says labor federation. John A. Casciotti, Senate Labor Committee minority counsel, says he asked for similar information--prior to AFL-CIO request--but OSHA said it didn't exist. Later, when he asked for copy of what AFL-CIO got, OSHA said it was generated by special computer run and no copies were kept by agency. "We do not seek a political

fight over OSHA," says Ray Denison, director of department of legislation, AFL-CIO, in recent letter to Sen. Richard S. Schweiker (R.-Pa.).

► **DO FATALITY STATISTICS** for 1978 prove what AFL-CIO intends? Some Senate Labor Committee staff members wonder. Union lobbyists are using figures to assert that deaths would still occur at work sites likely to be exempt from OSHA inspection under Schweiker bill. But OSHA could inspect wherever it wished in 1978, the doubters point out, yet that power did not prevent those fatalities. Better data are needed to determine causes of workplace fatalities, say the staff sources.

► **TORRENT OF OPPOSITION** to Schweiker bill generated by unions leaves passage in doubt. Supporters say they may postpone showdown to next session of Congress, rather than risk bringing up legislation in face of election-year distractions.

► **HOPES FOR BALANCED FEDERAL BUDGET** dim as economy enters recession. Welfare costs rise automatically in recession while tax revenues fall, complicating budget-balancing challenge. New jobs programs and welfare hikes are already being demanded by Keynesians. Other economists say tax cuts to stimulate investment are justified even at risk of deficit. Thus, two powerful economic camps--at odds on many points--are seeking policies that increase chances for deficit by end of fiscal 1981.

► **POTENTIAL SEVERITY OF RECESSION** is alarming many economic forecasters. Even Carter administration predictions

no longer foresee mild downturn. Major, immediate tax cut for businesses and individuals is needed to head off serious slump, says Richard W. Rahn, chief economist of U. S. Chamber. That view gains support from output of new supply-side, macroeconomic model constructed by Evans Economics, Inc., Washington, D. C. Model indicates that tax cuts would be substantially more effective in stimulating economy than would increase in government spending.

► **FTC ACTIONS OPPOSED BY BUSINESS** will be easier to block as result of long struggle over appropriations for agency. Rules issued by Federal Trade Commission in future will be subject to veto by vote of both houses of Congress. Some analysts see business failure to get one-house veto as victory for agency. Not so, say insiders. Two-house veto mechanism is easier to use than proposed one-house veto, which would have required passive concurrence of other house. Under new procedure, it will be simple for any member of either house to set in motion process for veto vote.

► **DEPARTURE OF EDMUND S. MUSKIE** from Senate to become Secretary of State may help effort to hold lid on federal spending. Replacing Muskie as chairman of Senate Budget Committee: Ernest F. Hollings, a South Carolina Democrat considered somewhat more conservative than his Maine predecessor.

► **EASING OF ENVIRONMENTAL REGULATION** as result of Sen. Muskie's move to State Department? Not necessarily, say expert observers. Next in line to head Environmental pollution subcommittee is Sen. Mike Gravel (D.-Alaska), who is considered unpredictable. If he declined, post would go to Sen. Lloyd Bentsen (D.-Texas), probably a moderate on environmental issues.

► **DO HIGH TAX RATES** discourage individual initiative? One indication that they do is inverse correlation between income levy and number of patents granted, says Brian Cooper, senior re-

search associate at Economic Development Council of New York City. In 1925, maximum tax rate was 24 percent, and 30,332 patents were issued to individuals--a record. For 1978, figures are 49 percent and 14,259 patents.

► **PROBABLY THE MOST COMPLEX RULES** the government has ever produced. That's how one Environmental Protection Agency official characterizes his agency's new regulations for handling hazardous industrial waste. Rules impose licensing and reporting requirements on production, storage, transportation, and disposal of hundreds of chemicals considered toxic, flammable, corrosive, or reactive. There are some exemptions for small producers. Compliance is to take place in series of steps starting immediately and continuing for months. EPA puts cost of compliance at \$510 million a year. Industry representatives call that figure much too low. Years of controversy seem assured.

► **WORK-AT-HOME PLANS** are getting bad reputation. That can harm legitimate operators in field and invite government intervention. Some plans are just variants of old chain-letter scheme, warns Council of Better Business Bureaus. Customer who sends money for details of advertised plan is advised to place similar ads. Other plans underestimate amount of work required, overestimate earnings and market potential.

► **IF YOU HAVE RISK CAPITAL** of \$50,000 or so and are looking for an inflation hedge, you're a prime target for commodities con artists, according to U. S. Commodity Futures Trading Commission. To protect yourself, commission advises these precautions:

- Be wary of unsolicited, long-distance telephone sales calls.
- Get the details in writing.
- Don't make hasty decisions.
- Ask for references and check them.
- Find out how much of what you pay goes to commissions and other charges.
- Pin down your total potential liabilities. Learn what market conditions could result in a loss.

Long distance calls. Face to face.

In today's business climate, success very often comes from making a personal call, while others are making a phone call.

Considering the inflated cost of business travel, that success doesn't come cheap.

But if you're committed to success, and charged with economy, Beechcraft has an alternative that can give you both.

The company plane.

We can show you, in black and white, how a Beechcraft company plane can cost you less than you're spending now on a company car, long distance air fare, and unproductive long distance phone calls.

Efficiency is the secret. Fuel efficiency, time efficiency, and investment efficiency.

We can show you how other companies, companies of all sizes, have turned that efficiency into rapid expansion or increased profitability, or both.

It's a simple matter of economics. The economics of getting there first. And getting

back with the business instead of the expenses.

If the shortcomings of long distance are taking a toll, write Beech for some answers that can take your company off hold.

Send for your free Management Guide to Business Aviation in the '80's and put the business back in business travel.

Write us on your company letterhead, and we'll send you everything you need to decide whether your company can profitably use a Beechcraft. And which Beechcraft suits you best. Write to: Beech Aircraft Corporation, Dept. NB5, Wichita, Kansas 67201, and please mention if you're a pilot. If you'd rather call, call collect and ask for Dick Showalter, Jr. (316) 681-7072.

Member of General Aviation Manufacturers Association



The Beechcraft Duke. The ultimate owner flown business aircraft. It can fly 6 people at over 280 mph in pressurized comfort.



Apathy and Anger: Why People Don't Vote

Your article entitled, "Voters Boycott the Ballot Box" [March], can be summed up in a few words. Most of us believe that the more things change, the more they remain the same. The bureaucrats have captured our government, and our elected officials are worth absolutely nothing to us.

ROBERT E. NESMITH
Houston, Texas

Voters are boycotting the ballot box because the left wing has devised such terms as bloc voting to convince the average working person that his pitiful little vote won't change anything, so why bother voting?

In truth, bloc voting consists of nothing more than many individuals casting one vote each for a candidate. Just as one brick is part of a wall, one vote is part of some candidate's bloc. Any citizen who feels that a certain candidate represents his views should go to the polls and contribute one vote to that candidate's bloc.

MARVIN E. RICHARDSON
President
Mississippi Time Instruments Co.
Jackson, Miss.

I still vote but wonder why. If you look at all the graphs, you'll see a steady increase of government workers, government regulation, government bureaucracy, government stupidity, government taxation. And you can't tell from the data which party is in power. We do not have a two-party system anymore. Every candidate speaks of reduced bureaucracy. Every elected official gives us more. If and when the two-party system returns, you'll see voting percentages shoot up.

W. M. BUESCHER
Grass Roots Communications, Inc.
Pigeon Forge, Tenn.

The supposed apathy of the general public at the polls is a sign of the stability of our government and the contentment of Americans overall. Without broader public involvement, special interest groups are in a better position to influence legislation. But politicians keep the general public in mind, and, if push comes to shove, will

respond when the public is genuinely upset. Short-term gains by special interests will be reversed if they are sufficiently distasteful to the majority of Americans.

GERALD SCHNEIDER
President
A Better World, Inc.
Silver Spring, Md.

A large percentage of the registered voters who do or do not vote couldn't really care less about the people who are finally chosen for office.

Most presidents are not elected because they are popular with the people, but because they seem to be the lesser of two evils. Most party platforms are never carried out, anyway.

GEORGE HOGAN
Belding, Mich.

The electorate is beginning to acknowledge that our former representative government has been gradually replaced by a return to 15th-century feudalism. Elected representatives appear powerless to engage the domestic machinery so closely guarded and dominated by federal and local bureaucracies.

H. M. STEWART, JR.
Chairman of the Board
and Chief Executive Officer
Standard Telephone Co.
Cornelia, Ga.

When you point to voter apathy, you can exclude the Chicago suburb of Homewood. Almost 5,000 of about 9,000 registered voters in the school district approved an increase in assessed valuation to maintain quality education. The result, which followed a referendum defeat last year, could be called a modern miracle in view of spiraling inflation, Proposition 13 fever, and the general trend to reject tax increases.

SIDNEY A. BARSUK
Chairman
Citizens for Quality Education
Homewood, Ill.

Abolishing political parties would be a great gain for democracy. Is not the party system anathema to integrity and efficiency? Uniting behind the party candidate regardless of character or ability can hardly be called promoting efficiency and honesty in

government. To the contrary, it is promoting party welfare over national welfare.

W. C. NESMITH
Jacksonville, Fla.

Small Business Problems

Atlantic Savings Bank was delighted to see the Chelsea Clock Co. featured in NATION'S BUSINESS. ["Small Business: Beset, Bothered, and Bewildered," Feb.] I would, however, like to correct one fact. The industrial revenue bonds that were issued by Chelsea Clock were purchased in full by the Atlantic Savings Bank even though the interest return on them was not equivalent to the market's. The Atlantic Savings Bank did this as a community service to a local industry, and because it has confidence in the company.

WILLIAM C. ANDREW
President
Atlantic Savings Bank
Chelsea, Mass.

In view of the plight of small businesses facing oppressive regulation and excessive taxation, when are business people going to insist that our government's leaders put first things first and balance the federal budget?

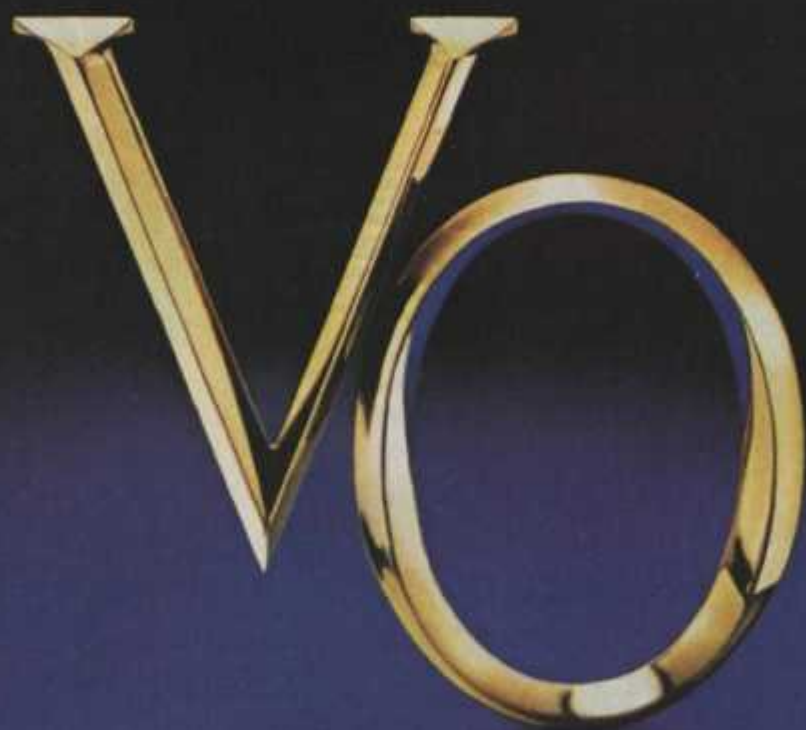
If business people are sincere in their belief in the free enterprise system's great merit and wish to be able to compete effectively in the world's marketplaces as well, why don't they all work at educating elected officials and the public about sound business principles?

CYRUS J. STOW, D. D. S.
Conyers, Ga.

I read with much interest the article in your publication dealing with the steps small businesses take to cope with inflation, taxation, regulation, and a myriad of other problems.

I am involved on a daily basis in the financing of agriculture, from production loans to equipment purchases to land acquisition. Agriculture is the only business I know that cannot maintain a reasonable profit margin. During the past three to five years, the costs of fuel, irrigation, and capital investment among others have doubled and tripled, yet farmers are not able to

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FORD

FORD DIVISION



pass on these increased costs, but must sell their products for whatever the market is willing to pay at the time.

These increased costs have staggered both the farmer and lending institutions as more and more dollars are needed to operate. Yet in terms of real dollars, the amount of money received by the farmer for his product has actually declined. The only saving grace has been an increased ability to achieve greater production, which is now reaching its outer limits, given available technology.

DENNIS D. KUGLER
President
Farmers State Bank
Holyoke, Colo.

Your report on the White House Conference on Small Business says that the delegates asked for less from government, but actually they asked for a lot more. I count at least 11 new laws or amendments and nine new levels of bureaucracy.

I can imagine how many more government employees will be needed to implement the reviews, analyses, regulations, monitoring, goals, and impact statements. And new forms will be created for business people to fill out.

GILBERT LYZENGA
Personnel Director
World Generator Co.
South Holland, Ill.

Best Rebuttal

Robert Hessen's article, "Are Shareholders Being Victimized?" (April), was precise, to the point, and the most devastating rebuttal of another man's views [Ralph Nader] that I have ever seen. Well done.

LARRY J. VONDRA
Sales Manager
Ecco Motors, Inc.
Omaha, Neb.

Durable Gold

The statement that gold's real utility value is so slight that most of the gold ever mined is still in existence does not compute. ["Gold: An Investor's Ballast," April] That fact simply proves that gold does not deteriorate as much as other elements.

FRANCES M. WELLS
Eureka, Calif.

Unequal Military Pay

My loud applause for Mr. Kilpatrick's article on competitive pay and benefits for the military. ["Symbols and Substance," March]

As a military wife, I understand the difficulty of just getting by on the sala-

ry provided. For the long hours and the months of separation, military salaries are not commensurate with civilian pay. An adequate response from Congress is not forthcoming, which constantly adds to the frustration.

SUSAN A. HARVEY
Patuxent, Md.

Mr. Kilpatrick is right when he says that a Navy man doing a tremendous job with very expensive equipment and many hours a day earns less than a manager at McDonald's. The government is discriminating against the military by paying civilian workers more than military in the same position. We talk about wise defense spending, but I think service personnel should be first.

MIRIAM DAVIS
West Point, Ind.

Words That Hurt

Industry is described today by many words that are inaccurate and do great harm. For instance, "grievances." People grieve when someone dies. A reasonable difference between labor and management is not really a grievance.

The free enterprise system better de-

scribes the American economy than capitalism, and earnings has a more precise meaning than profits. These are just several words among many. Couldn't some committee develop an educational program to pull out these verbal thorns?

KEITH J. EVANS
Riverside, Ill.

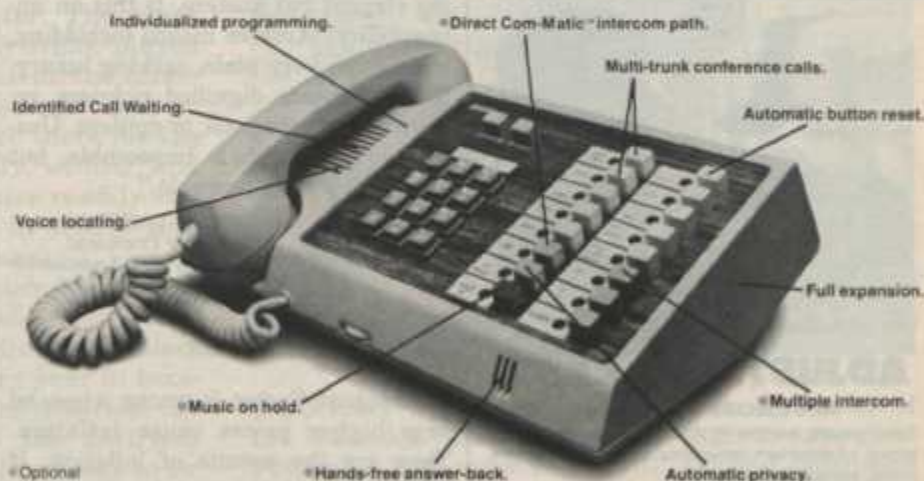
Spiritual Assistance

In the article, "Doomsday for Public Education" [Feb.], James J. Kilpatrick accurately describes the declining quality of public education, but I don't think he puts his finger on the root cause. When I attended public schools, the teacher began the day by reading from the Bible and then asked God to assist us in the conduct of the school day. He did.

Now we run schools without requesting His aid, and the results show what we can achieve entirely on our own without God's assistance.

ERNEST P. FREEBERG
South Harpswell, Maine

A simple way to cut the budget is to abolish the Department of Education. It cannot educate anyone. The department is just a bureau to provide jobs



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for thousands of people. It was created by pressure from the teachers union, the National Education Association.

Does the Department of Energy accomplish anything, either?

WARREN SNYDER
Snyder Molasses Co.
Chicago, Ill.

Mr. Kilpatrick properly assigns the blame for the conditions of public schools to parties other than the classroom teacher, principals, and local superintendents.

Of particular note are the noneducational, ancillary functions now expected of the schools. A list of these activities should include running a restaurant for finicky customers, providing dental care, and, most costly of all, educating profoundly retarded or handicapped individuals at a cost frequently exceeding \$50,000 per student per year.

WALTER F. LINDBERG
Manager
Deloitte Haskins and Sells
Cleveland, Ohio

Plain Luxury?

Re: "How a Nice Can Company Can Finish First." [March] You described the National Can headquarters as being elegant but austere. Is this an impossibility? Austere means forbidding, self-denial, very plain, lacking luxury. Elegant means dignified richness, refined grace, luxurious, or opulent. Usually your English is impeccable, but this time it was "peccable."

ROBERT R. DANIELL
Senior Vice President
Dollar Savings Association
Columbus, Ohio

Causes of Inflation

President Carter is wrong when he says higher prices cause inflation. They are the results of inflation. If OPEC's higher prices were the cause, West Germany and Japan would be in terrible economic condition. ["Inflation: Control the Uncontrollables," April] Balancing the budget is paramount to curing inflation. It may mean that we can no longer give food

stamps to more than 20 million Americans, but if that is the price, then so be it. If it means no more automatic cost-of-living increases for everybody, then that, too, must be.

CHRISTOPHER P. HITCHCOCK
Berkshire Farm
Mentor, Ohio

In the article on fighting inflation, you did not mention the proposed constitutional spending limit amendment prepared by the National Tax Limitation Committee. This draft amendment imposes a two-part limit on federal spending; one to apply if inflation is three percent or less, the other if inflation is higher.

JOSEPH M. STEPHENS
Branch Store Manager
Resco Appliance Parts, Inc.
Newport, Del.

A one-sentence reason for the sad state of our economy in terms of inflation, lagging productivity, and low morale is: Never before have so few worked so hard for so long to support so many who do nothing. The few are getting tired.

DOMINIK M. WIKTOR
Cranford, N. J.

Fair Test

Re: James J. Kilpatrick's column, "Dr. Privitera and Human Freedom," [April]. I lost my father to cancer several years ago. I did take him to Mexico for laetrile treatment, which I knew was not going to cure him. My father was in extreme pain from his disease. After four days of treatment in Mexico, my father was walking around and eating well. I saw a number of other people who received the same relief. None of them expected to be cured. The medical profession and the National Cancer Institute should give laetrile a fair test.

RON L. BERKMAN
Regional Sales Manager
The Napier Co.
Dallas, Texas

Common Error

Re: "How to Mastermind a Meeting." [April] The author misuses the word podium. His is a common mistake. The podium is the dais, platform, or stage. It is not the same as a lectern, speaker's stand, or pulpit. I realize, of course, that my comments place me in the category of a problem participant at a meeting who objects, criticizes, and heckles.

JERRY N. JORDAN
Dallas, Texas

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The Federal Taste for Waste

BACK IN FEBRUARY, 1976, a woman artist from Pittsburgh took a little trip with her husband to St. Maarten, an island in the Caribbean. There he took some motion pictures of her in one of the environments that had influenced her development as an artist. Then the happy couple, two of their children, and two sky divers assembled at El Paso, Texas. A small airplane was chartered. While the children remained on the ground, the others went aloft. The two sky divers parachuted to the ground, unreeling four rolls of crepe paper as they fell. The camera whirled away. The two children retrieved the crepe paper.

What resulted from all this was a "transitory work of art." It cost the taxpayers \$6,025—the total income tax payments of three average families in that year.

Sen. William Proxmire, the Wisconsin gadfly, awarded the National Endowment for the Arts one of his Golden Fleece of the Month for this particular waste of the people's money. He had no criticism of the individual artist, nor do I mean to criticize her in recalling the matter. The great game of grantsmanship is perfectly legal, played by thousands of artists, writers, scientists, scholars, public agencies, and street-wise con men every year. As long as public funds are there for the frittering, plenty of people are ready, willing, and eager to fritter. And as Sen. Proxmire readily emphasizes, many of the grants serve to finance useful investments in productive ventures.

But Sen. Proxmire's target, which he attacks with zeal and imagination, is waste—the sheer, unending, maddening waste of billions of dollars that are taken from the people every year in taxation. In his new book, *The Fleecing of America*, the senator pulls together some of the satirical awards he has given over the past five years to especially egregious examples of bungling or bad judgment at the federal level. The book comes from Houghton Mifflin (\$10.95). It gets the old adrenals pumping.

IN THE SAME VEIN IS *Fat City* by Donald Lambro (Regnery/Gateway, \$12.95). Mr. Lambro is a veteran Capitol Hill reporter. His work is far more detailed and comprehensive than Sen. Proxmire's, and his meticulous review of "100 Nonessential Federal Programs" provides an appalling catalog of the ills that afflict us. Together the two books offer an infuriating indictment of—what? Of attitudes. This is what finally gets to you.

One such attitude was defined by Hamlet as the insolence of office. Mr. Lambro cites some examples. The city of Washington has dozens of private-

ly owned and operated health centers, fully equipped with saunas, pools, spas, and gymnastic equipment; hundreds of the capital's professionals make use of them all the time. There is no earthly reason why members of the House and Senate should not pay for such services as others do. But, no. Members of Congress have two of the most luxurious gymnasiums in town for their exclusive use. More than \$200,000 every year is paid out for sweat, swims, and back rubs.

SEN. PROXMIRE HAS ANOTHER example, this one from the Defense Department. At the very peak of the 1974 energy shortage, when the people were being exhorted to save every possible gallon of fuel, the Navy arranged to have 64 aircraft fly



1,334 reserve officers to Las Vegas for a reunion of the Tailhook Association. The flights, says Sen. Proxmire, cost more than \$191,000 and consumed 347,000 gallons of fuel.

Mr. Lambro reminds us of the part-time chef who was put on the public payroll at \$13,000 a year to cook for the former Secretary of Health, Education and Welfare, Joseph A. Califano. Six other cabinet members had similar little luxuries at public expense. It is the rule, not the exception, for top brass to lunch in their private dining rooms. Yes, these officials pay for the food that they and their guests consume, but the costs of service and overhead are footed by less affluent taxpayers. How is this kind of thing justified? It isn't justified; it is simply a product of an attitude toward tax dollars—easy come, easy go.

There is a second attitude, transposed from the farmer's sage advice to make hay while the sun shines. In government it is known as the rule of

getting while the getting is good, or If I Don't Grab This, Somebody Else Will. The motivation is pervasive. Local governments are constantly pressured to apply for federal grants lest some other governmental unit get to the goodies first. Every September brings a phenomenal rush of purchase orders from federal agencies: The fiscal year is running out, and appropriated funds have not yet been expended. Horrors! If appropriations aren't spent, they may never be replaced.

Both Sen. Proxmire and Mr. Lambro cite examples from the scores of grant-in-aid programs that operate throughout the bureaucracy. Again, a word of caution is in order: It is all too easy to ridicule some outlays by oversimplification. Even so, taxpayers have every right to challenge the \$4.8 million in grants paid out by the National Endowment for the Arts in 1976 to poets, novelists, playwrights, artists, sculptors, printmakers, photographers, and even to 24 art critics. What constitutional authority can be cited in support of these grants? The blunt answer: None.

THE TAXPAYERS FUND a National Institute on Alcohol Abuse and Alcoholism. Manifestly, alcoholism is a serious social ill. Such private organizations as Alcoholics Anonymous cope effectively with it; many private foundations and hospitals also work in the field. Was there any valid reason for the National Institute to pour \$102,000 in tax funds into an experiment with alcoholic fish? A part of the experiment, says Sen. Proxmire, was designed to determine if "sunfish that drink tequila are more aggressive than sunfish that drink gin?" He adds sarcastically that perhaps the experiment gives new insight into what it means "to be stewed to the gills."

Consider a few other grants cited by Sen. Proxmire and Mr. Lambro: To teach college students how to watch television, \$219,000; to discover how motorists feel about trucks, \$222,000; to take the body measurements of 432 airline stewardesses, \$57,800; to prepare a documentary film on the Pachuco Zootsuits of Chicago, \$10,000; to support publication projects of a San Francisco magazine called *Gay Sunshine*, \$3,000; to count the cats, dogs, and horses in a part of Ventura County, Calif., \$385,000.

In the perspective of a \$600 billion annual federal budget, such items are petty—but the attitude behind the givers and the receivers is not petty at all. It reflects a magnanimity compounded of good intentions and brassbound opportunism. One does not have to question the sincerity of psychologists who seek tax funds to explore "romantic love" and "passionate love." One surely may question the judgment of a Congress that funds such outlays and a bureaucracy that ladles them out.

Some of the grossest waste in government is far from petty. A few years back, losses on Medicaid payments alone, owing to overpayments and to payments to ineligible recipients, were estimated at \$750 million a year. A different estimate put the losses in 1977 at \$1.2 billion for Medicaid, \$900 million in Aid to Families with Dependent Children, and \$300 million in Supplemental Secu-

rity Income. It is impossible to quantify the sums that are squandered annually on consultants who prepare reports that nobody reads. Last year the Defense Department alone was paying the salaries of more than two million people through consulting contracts. The waste goes on and on. And who is to blame?

ALMOST EVERYBODY is to blame. That is the discomfiting truth. One is reminded of Pogo's famous discovery that "we have met the enemy, and he is us." Congress is to blame; it funds lavish programs such as the Comprehensive Education and Training Act and then turns its collective back on their administration. The executive agencies are to blame; in their bureaucratic eagerness to keep the rivers running, they fund projects with only the most tenuous justification. State and local governments are to blame; they have become addicted to the narcotic of federal aid. University presidents are to blame; they have let their institutions become helplessly dependent upon the federal purse. Individuals are to blame; I myself am a freeloader in the Senate Press Gallery on Capitol Hill.

To inveigh against governmental waste is the easiest forensic exercise on earth. Everyone opposes waste. Now and then a few people do something about it. A number of senators and representatives conscientiously return unused portions of their office expenses. Senators like Harry F. Byrd, Jr. (I.-Va.) pay for their own foreign travel. Sen. Proxmire is only one of many members who function as scolds and gadflies; Rep. Robert Bauman (R.-Md.) is another. Within the executive departments and agencies, one finds penny pinchers and whistle blowers. The General Accounting Office performs indispensable services in ferreting out waste and mismanagement.

ALL THESE EFFORTS HELP—and I don't mean to exclude the White House in this regard. President Carter, I am convinced, has taken some most effective steps toward tightening the rules on federal spending. Yet even Mr. Carter, despite his presidential powers, is constantly frustrated by the thousands of leaky faucets that tap the U.S. Treasury. The waste goes on.

It will take something approaching a revolution in human nature to end the extravagance, to curb the bland dispensation of public funds for frivolous purposes. What is needed—and what is most unlikely to materialize—is a return to some of the homely maxims of George Mason. Long ago the great Virginian proclaimed that public office is a public trust, and that public officials are the people's trustees. This is the attitude that counts. Free government cannot be preserved, said Mason, "but by a firm adherence to justice, moderation, temperance, frugality, and virtue, and by frequent recurrence to fundamental principles." That was sound advice two centuries ago, and it remains sound to this day. □



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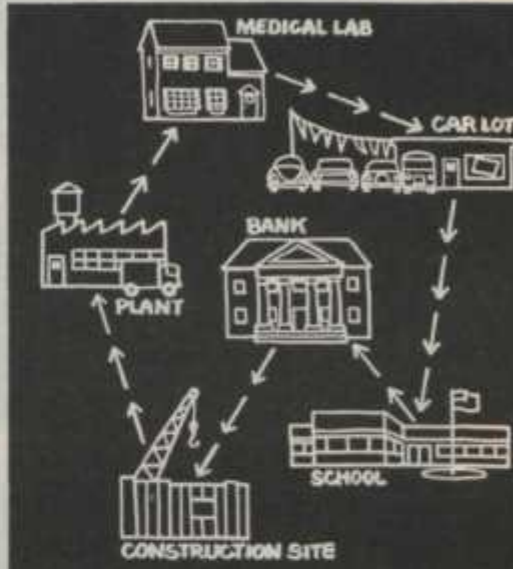
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Workers themselves may have the answer to lagging productivity. A new survey shows that 84 percent would work harder if involved in management decisions.

THE ECONOMY

Most Workers Really Want to Work Harder

American business people trying to improve the nation's lagging productivity may find an ally in the American worker. That's one implication of a new survey conducted by the Gallup Organization for the Survey Center of the U.S. Chamber of Commerce. Although workers tend to rate U.S. productivity growth much higher than it actually is in comparison to that of other major industrial nations, they do understand the importance of productivity and are willing—even eager—to contribute to improvements, the survey shows. Other results:

- Fifty-three percent name workers' attitudes and abilities as one of the areas of possible change that could bring about the biggest improvement in productivity.
- Forty-four percent say they think a lot about changes that could improve their company's performance, and 65 percent consider it likely that their suggestions would be adopted.
- Seventy percent believe their fellow workers are enthusiastic or some-

what enthusiastic about doing a good job for their companies.

- Eighty-four percent say they would work harder and do a better job if they were involved in the decisions affecting their work.
- Sixty-seven percent believe that hard work makes a big difference to the success of their organizations.
- Eighty-six percent are very or somewhat concerned with providing top quality goods and services, and 88 percent recognize the importance of quality to the consumer.
- Seventy percent agree that improved productivity would reduce the rate of inflation.

Understandably, attitudes tend to be somewhat more negative and pessimistic among minorities, the unskilled, the lower-paid, and union members. However, the differences are often quite small between the responses of these groups and those of the skilled, the highly-paid, and white males.

The survey indicates that managers may be seriously underrating their employees' concern about productivity. A 1978 Chamber-Gallup survey disclosed that 83 percent of the nation's business leaders believe worker attitudes are an important factor in the decline of productivity.

Business Future Looks Bright in Oil States

The business climate in the nation's eight major oil-producing states should become increasingly favorable in the years ahead, according to the Northeast-Midwest Institute, a Washington-based nonprofit research organization specializing in regional studies.

The institute notes that because of the scheduled deregulation of natural gas and domestic oil, oil-related state revenues alone are expected to increase by up to \$128 billion over the next decade. The increased revenue could also bring a substantial rise in federal revenue-sharing funds, the institute says, because the formulas for allotting these funds are based on tax effort.

To alleviate relative losses to other states, the institute suggests changes in federal aid allocation formulas and limits on state severance taxes. Such changes are being advocated by members of the Northeast-Midwest Congressional Coalition, described by the institute as key clients. The eight states are Texas, Alaska, Louisiana, California, Oklahoma, Wyoming, New Mexico, and Kansas.

CORPORATIONS

Conservatives Espouse Stockholder Causes

Running an annual meeting is getting tougher and tougher because conservatives as well as liberals are now pushing stockholder proxy resolutions on social, political, and environmental issues. That conclusion is based on data produced by the Investor Responsibility Research Center of Washington, D.C., which analyzes stockholder resolutions.

More than 100 of the nation's largest corporations have faced increasing stockholder agitation lately.

Although no resolution is likely to pass without management support, the researchers say, conservatives have forced votes on halting trade with communist bloc countries and on detailing

the financial burden that government regulations impose on a company. Among the liberal resolutions were proposals to utilities to cease or avoid involvement with nuclear power, to a steelmaker to provide one-year notice of closings, and to banks not to sell South African krugerrands in the United States.

How to Reduce Employer Unemployment Taxes

Unemployment compensation taxes have soared more than 250 percent in a decade, and still the joint state-federal insurance program, funded by employers, is in financial trouble. Its problems include lax eligibility standards, poor enforcement, and excessively generous state and federal policies on payment rates and duration of benefits.

Employers can take several steps to hold down costs. Personnel executives surveyed by the Bureau of National Affairs, Inc., an information services company based in Washington, D.C., say that employers should:

- Maintain thorough employee separation records;
- Check a claimant's base period employment, reasons for separation, and amount of benefit claim;
- Conduct exit interviews;
- Hire an unemployment compensation expert; and
- Keep company policies in line with the regulations.

More than 90 percent of the 153 companies responding have protested at least one benefit claim, and nearly two thirds won all or a majority of their protests. "We contest many claims and win about 80 percent of them," one company reports.

GOVERNMENT

EPA Ponders How To Buffer Acid Rain

First, acid rock; now, acid rain. No, acid rain is not a holdover from the 1960s; it's polluted rainwater that the Environmental Protection Agency

says is a serious and growing problem.

Acid rain is caused by coal-burning or oil-burning power plants. Fine pollutants traveling high in the air for hundreds of miles cause rainwater to become abnormally acidic. Many scientists think that this acidic water can kill aquatic and plant life, damage crop-growing soil, and accelerate erosion. The problem occurs mostly in the northeastern and midwestern United States and in parts of Scandinavia.

Environmental laws don't identify acid rain as a pollutant subject to direct control. But EPA is studying ways to use its existing authority this year to cut the amount of sulphur dioxide and oxides of nitrogen released into the air. The agency is considering stricter emission limits on tall smokestacks and more rigorous monitoring of utility and steel plants.

Although EPA is preparing to move, Ralph M. Perhac of the Electric Power Research Institute says scientific data are insufficient so far. "As scientists, we have an obligation to evaluate the extent to which a control strategy will achieve its goal," Dr. Perhac says. "For acid precipitation, we cannot do that."



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PERSONAL

It Beats a Three Martini Lunch

Here's a tax-reducing investment suggestion that's a real Doozy... literally: Buy a Duesenberg II automobile at \$79,500. Lease it to your business. If you are in the 50 percent bracket, the investment tax credit and depreciation may reduce the effective price to \$35,775—at least according to the manufacturer, Elite Heritage Motors Corp. of Elroy, Wis.

The car is a full-size replica of the one-of-a-kind, boat-tailed speedster. It uses a V-8 engine and other mechanical parts supplied by Ford. Elite Heritage produces the chassis and steel-reinforced fiberglass body and intends to make only 12 a year.

For an auto buff, the Duesenberg is indisputably one of the all-time greats. It was built in small quantities in Indianapolis from 1929 through 1936, with a spare-no-expense philosophy. The chassis was supplied by Duesenberg, which also arranged for a custom-built

body of the customer's choice. In the early 1930s, a complete car cost from \$12,000 to \$25,000.

The Doozy was powered by a 320 hp, double-overhead-camshaft, supercharged straight eight, and could hit 160 mph. A top quality restoration today can bring as much as \$250,000.

INTERNATIONAL

Floating Exchange Rates May Inhibit World Trade

Flexible exchange rates—once heralded as a major improvement in international economics—may actually inhibit world trade, says Richard K. Abrams, an economist with the Federal Reserve Bank of Kansas City, Mo. Mr. Abrams studied all factors influencing trade between developed countries from 1973 to 1976. His conclusion is stated in the bank's publication, *Economic Review*: "Other things being equal, increased exchange rate volatility is detrimental to trade."

Mr. Abrams speculates that "the longer-run aspects of exchange rate uncertainty may tend to inhibit international trade by reducing the willingness of international traders to enter into long-term contracts." A reduction in exchange rate volatility would increase trade, he suggests.

Trading Companies Could Spur Exports

The formation of export trading companies may be the best way of expanding U.S. exports, the Senate Banking subcommittee on international finance was told. Ted Taubeneck,

former president of Rockwell International Trading Co., testified that "the trading company approach would get the largest number of small businesses involved in international trade."

Mr. Taubeneck detailed suggestions for 14 changes in the Senate bill to help it contribute "significantly to raising U.S. businesses to competitive parity with their foreign counterparts in international markets." He also recommended the removal of legal technicalities presently inhibiting trading companies.

AGRIBUSINESS

Higher Minimum Wage Sought for Aliens

A farmer who plans to hire temporary foreign workers at harvest time can expect to pay higher wages to both domestic and foreign employees under a Labor Department proposal. The proposed change would require an employer to pay both foreign and domestic agricultural workers at least \$4.51 per hour.

Under the proposal, an agricultural employer must first convince the Labor Department there are not enough U.S. workers to harvest the crop. He may then bring in aliens to work for pay set by the Labor Department. (Under a cooperative agreement with foreign governments such as Jamaica and Mexico, foreign workers can be brought into this country at virtually a moment's notice.)

The new rate is an average of the state rates and is intended to encourage agricultural employers to recruit more domestic workers. If U.S. work-

ers alone are hired for harvest chores, the minimum wage is \$3.10.

If the state rate is less than \$4.51, employers will have to boost their pay scales to the new rate. If the state rate is more than the proposed change, the farmer will be required to meet state guidelines. The change will affect about 500 farmers—mostly fruit and sugar cane—and 18,300 mostly foreign workers.

Change in Farm Tax Formula Studied

The Senate Finance Committee is considering a change in the method of appraising farmland that may reduce some inheritance tax.

In 1976, Congress enacted a valuation formula based on a farm's cash rentals at the time the farm is inherited. However, that formula excluded the right of many farmers to use sharecropping—renting out farmland in exchange for a percentage of the crops harvested—as a basis for valuation. These farmers were forced to base land value on the going prices for real estate surrounding their farms, which were often higher, resulting in higher inheritance tax payments.

The Treasury Department objects to the change. The committee wants to substitute the value of sharecropping in the mathematical formula now used to value the farm land if no comparable land is rented for cash.

"There is no question that using the formula gives farmers a lower real estate value," says a committee staff member, "but it is meant to be a bit lower. Treasury says it is too low and that farmers using it now are realizing huge windfalls through lower taxes."

Meanwhile, Sen. David Durenberger (R-Minn.) has introduced a bill that would increase the taxes on inherited farmland if the use of the land is changed after the death of the owner. According to the bill, if the heir sells to a nonfamily member or uses the land for nonfarming purposes, the higher potential estate tax would be added to the basis of the land.

SMALL BUSINESS

OSHA and SBA Unite To Ease Rules Burden

The fight to ease government regulation of the workplace is taking on a unified look. The Occupational Safety and Health Administration and the



The Labor Department is proposing wage changes that would encourage farmers to hire domestic workers rather than foreigners to harvest the crops.

WORLD NEWS

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Small Business Administration have announced a cooperative effort to streamline the regulatory process and reduce red tape for small business.

Right now, small businesses are often limited to responding to proposed regulations only after they have been printed in the *Federal Register*. But, says Kay Klatt, OSHA special assistant for small business, the two agencies will now work together to identify small firms that may be affected by new federal standards. The firms will be given a chance to comment on new regulations before they are formally proposed. OSHA will provide SBA with specific information on forthcoming regulations. In turn, Ms. Klatt says, SBA will ask various small business groups to seek input from their members.

The agencies also agreed to provide more financial and technical assistance to smaller firms to help them comply with OSHA regulations. "However, this is not an adversarial process," says Ms. Klatt, "and its purpose is not to delay federal rule-making. Rather, it will help to ease the burden of government regulations on small business without sacrificing worker protection."

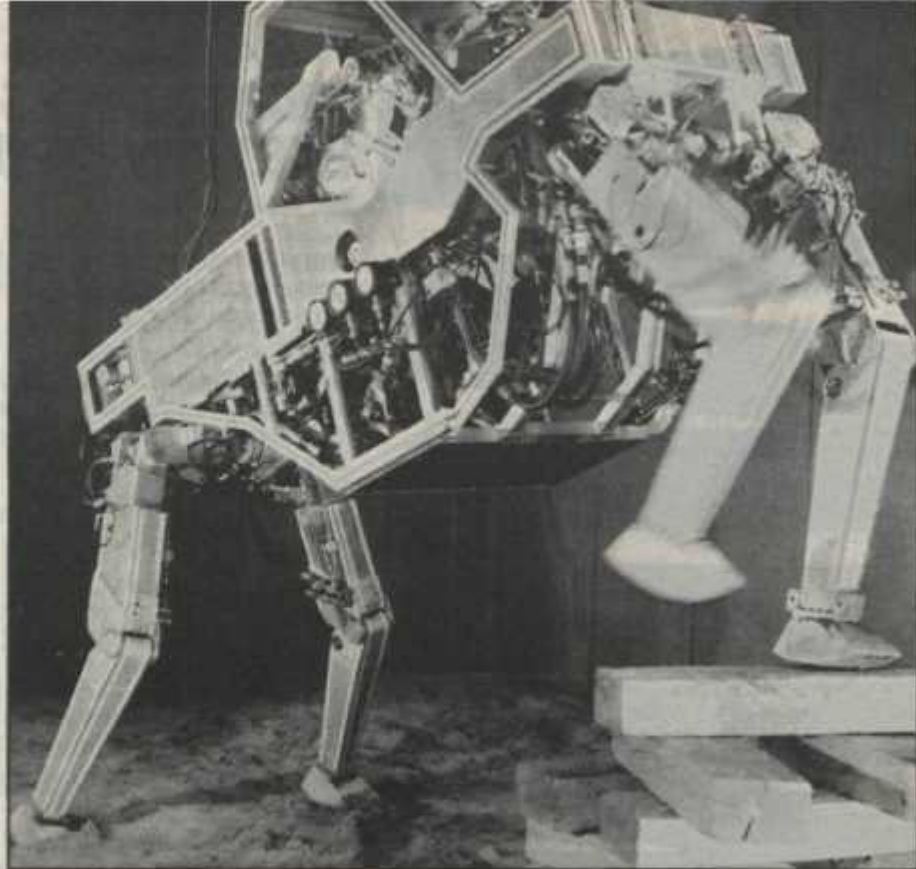
The program will be coordinated by SBA's Office of Advocacy and will take about three months to set up. According to A. Vernon Weaver, SBA administrator, small businesses consistently name government regulation their number one burden. The new agreement, he says, will help to diminish that burden.

Fed Frees Loan Money For Distressed Firms

The Federal Reserve Board will free up to \$3 billion in new money for low-interest loans to small businesses and farmers. The money will be available only to 6,000 small banks with assets of less than \$100 million and a loan-to-deposit ratio of at least 68 percent.

It will be loaned at the Fed's discount rate; the banks will then make subsidized loans to small firms at rates somewhat lower than current rates.

The administration's credit restraints were not meant to fall heavily on small business and agriculture, says Fed Vice Chairman Frederick Schultz. But since the restraints were imposed last October, he says, small business owners and farmers have come under tremendous pressure. "They can withstand that pressure for some time, but if it's over a long period of time, they're in trouble."



The Big Foot of robotics was built by General Electric engineers for the Army to use in experiments aimed at improving the mobility of foot soldiers.

TRENDS

Seven Sciences That Will Change Your Life

Seven rapidly evolving technologies that will change American life have been identified by Westinghouse Electric Corp. researchers, who say the developments will help solve the nation's productivity and energy supply problems. The seven are:

Lasers. These devices produce intense beams of light that can cut steel sheets, weld metal, and perform delicate eye surgery. Experts predict that lasers may be used to harden metal, read video disks, and cut the cost of separating uranium 235 in the nuclear fuel enrichment process.

Optics. By using fiber optics—light passing through hair-like glass strands—telephone calls and other data can be transmitted farther, with less power, and through a smaller carrier than is possible with conventional methods. One thousandth of a watt of laser light can carry one million simultaneous telephone conversations. The technology will also greatly enhance information collection and processing.

Microprocessors. These computers on a chip of silicon are the nucleus of mini-computers which can process, store, re-

trieve, and communicate millions of pieces of information. In industry, microprocessors will be used to control assembly-line robots, run energy-conserving electric motors, and operate the elevators and heating, cooling, and security systems of buildings.

Robotics. With microprocessors for brains and lasers for tools, robots are entering factories and performing jobs that are hot, heavy, hazardous, and monotonous.

Solar photovoltaics. The direct conversion of sunlight into electricity has long been used to power earth satellites, but at high cost. Growth in worldwide uses may bring down production costs, Westinghouse says.

Coal conversion. "Probably the key conversion technique to be developed in the 1980s," says Westinghouse. Gas produced from coal can be used in a combined gas, steam, and electric turbine generating plant with high efficiency and low cost—and without polluting the atmosphere. The gas can also be converted into liquid fuels.

Fuel cells. The cells, which produce electricity through electrochemistry, will be demonstrated in prototype by 1985, according to Westinghouse scientists. Efficient, nonpolluting fuel cells could eventually supply both electrical power and heat for neighborhoods, shopping centers, and apartments. □

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"In an overall anti-inflation program, the nation must have a balanced budget," says President Carter. "We cannot reduce interest rates and make jobs secure until we get inflation down."

"Punitive taxes on business and industry should be changed," says Gov. Reagan. "Unnecessary regulations should be canceled. Where costs exceed benefits, the regulators must desist."

PHOTO: DENNIS BRACK—BLACK STAR



PHOTO: MARK PEARLSTEIN—BLACK STAR



"Most Americans are prepared to take whatever steps are necessary to put this nation back on the road to economic sanity," says George Bush.



"I do not ask you to accept all the answers that I offer," says Sen. Kennedy. "But I do ask that you expect from every candidate more than the same policies that have already failed."



PHOTO: ARNOLD ZIMM—BLACK STAR

"Business, labor, and government all have a common interest," says Rep. Anderson. "If we want an economy capable of producing three million jobs a year, we have to promote capital formation."

What the Candidates Promise for Business

The five front-running presidential candidates have one platform in common: They all like business. They all want to help business. And they all believe, to a greater or lesser extent, that the country's economic survival and future prosperity depend, to a greater or lesser extent, on business.

That said, the candidates have sharply differing plans for business and the economy. Each has his own version of an economic first-aid kit, and each contends that only his treatment will save the patient.

President Carter, for example, opposes any tax cut now, while George Bush favors a \$20 billion cut, half to individuals and half to business. Ronald Reagan likes the 30 percent tax cut advocated by the Kemp-Roth bill, and John Anderson wants to index tax rates to inflation while liberalizing depreciation for businesses. Edward Kennedy supports the restructuring of business depreciation to increase efficiency and tax relief for those most affected by inflation.

Overall, the candidates are as much bothered by the triple threat of inflation, recession, and unemployment as any business person. After interviews with the candidates and their top aides, NATION'S BUSINESS editors report what each promises to do for business if elected.

Carter

Unlike his opponents, President James Earl Carter must run on his record.

At home, that is a record emblazoned by inflation, recession, high interest rates, and general economic frustration. Abroad, it is a record of uncertain foreign policy, heightening tensions in the Middle East and Persian Gulf, and a loss of confidence in America's national will.

Whether the President, if he is re-elected, would temper, alter, or even abandon the main thrusts of his do-

mestic and foreign policies is an open question. In his campaign, he frequently counsels patience, saying his policies will work if only they are given time to take hold. The very nature of the Carter presidency suggests that he will probably pursue the same course on which he is now headed, a course deliberate in its caution and restraint.

In the words of one of his closest advisers, White House domestic affairs chief Stuart Eizenstat: "Carter has been a moderate and cautious president who has refused to give glib answers that would appeal for a time, but

would not have a lasting impact and indeed might be proven incorrect by later events."

Mr. Carter, 55, promised four years ago to trim the size of government, balance the budget, reduce unemployment, and lessen the burden of federal regulation on business, but his poor relations with a Congress controlled by his own party have weakened many of his efforts to solve serious domestic problems.

The differences between Mr. Carter and his principal opponent, Republican Ronald Reagan, are perhaps most clear on the issue of cutting taxes. The President is adamantly against a tax cut until, he says, he is sure the budget is balanced. Gov. Reagan, on the other hand, is practically committed to a \$30 billion tax reduction over three years.

While there are defections in the hierarchy of organized labor, President Carter enjoys overall union support, thanks to his strong backing of such major labor causes as labor law reform, common site picketing, and consumer protection legislation, all of which were defeated. Mr. Carter has also allied himself to labor by his vigorous espousal of a windfall profits tax on oil and gas and increases in the minimum wage.

One indication of the President's harmonious relationship with labor was his signing of a national accord with the AFL-CIO last year in which labor agreed to White House wage-price guidelines.

While the accord contained some sound economic principles, it also embraced a number of proposals (including the Humphrey-Hawkins Act) some

economists regard as dangerously inflationary.

The nation still must contend with the highest inflation rate in modern times, whether or not Jimmy Carter is reelected. Similarly, it has to come to grips with a recession that is just now settling in and unemployment now running at about seven percent. As Election Day approaches, Mr. Carter will be pressed to explain why inflation was allowed to increase from 4.8 percent, when President Ford left office, to the recent economy-busting 18 percent level.

President Carter maintains that the present level of inflation took 15 years to build up and cannot be eliminated overnight with simple, painless solutions. His own solution is to continue to press for a balanced budget. He also plans to continue credit restraints imposed this spring and voluntary wage-price controls.

Given another four years, President Carter can be expected to continue his efforts to eliminate government regulation of banking, trucking, railroads, and communications. Airline deregulation already has been implemented.

Absent a major policy clash, President Carter expects his present economic advisers to stick with him. These include: G. William Miller, Secretary of the Treasury and chairman of the Economic Policy Group; Charles Schultz, chairman of the Council of Economic Advisers; Alfred Kahn, director of the Council on Wage and Price Stability; and Jim McIntyre, director of the Office of Management and Budget.

If the voters stick with President Carter, Jan. 20, 1981, will bring the inauguration of a more conservative sounding chief executive. The second time around, he will probably abandon the rhetoric and grandiose promises of four years ago and concentrate on trying to get the programs he started in his first term to work.

—Mary Tuthill

Reagan

Ronald Wilson Reagan would probably launch his presidency with the kind of crisis trappings that marked the first 100 days of Franklin Roosevelt at the onset of the Great Depression. If Gov. Reagan pursues the presidency the way he conducted the affairs of state during his two terms as governor of California, look for him to start releasing the names of federal task forces before he has finished unpacking his

bags at 1600 Pennsylvania Avenue. These task forces, which would poke into every bureaucratic crack and crevice in government, would be staffed liberally by business executives and even sprinkled with some prominent Democrats and union officials.

Barring worsening affairs abroad, Gov. Reagan's fledgling Republican administration would move swiftly and dramatically to replace the Carter economic blueprint with the kind of monetary and fiscal approach that was popular in the Nixon and Ford years. Prominent in Gov. Reagan's plans are a 30-percent personal income tax cut over three years and less specific slashes in federal government spending (which is now 22 percent of gross national product).

Some economists already advising the candidate are William Simon, George Shultz, Alan Greenspan, Arthur Burns, and Caspar Weinberger, all of whom served in the Nixon or Ford administrations. But the list also includes Milton Friedman, the best-selling author (*Free to Choose*) from the University of Chicago; Martin Anderson, an urbanologist from Stanford University and the Hoover Institute who was one of Gov. Reagan's closest economic advisers during his governorship; Arthur Laffer, a University of Southern California neopopulist economist who fathered the Laffer Curve; and Jude Wanniski, a former *Wall Street Journal* editorial writer and author of *The Way the World Works*.

Prof. Laffer is the theorist behind the Kemp-Roth tax bill which would reduce all personal income tax rates by 10 percent annually for three years. An ardent supporter of the proposal, Gov. Reagan would surely press Congress to enact such a cut.

The 69-year-old candidate also favors many ideas and programs dear to the minds of business people. He is, for example, adamantly against the federal minimum wage which, he says, "destroys thousands of jobs for the poor and young."

He also opposes federally created jobs, preferring that the private sector expand employment. He advocates complete abolition of federal inheritance taxes and the double taxation of corporate stock dividends. He would also eliminate taxes on savings account interest; this, he says, would encourage capital investment.

While candidate Reagan has been criticized for pinpointing many failures of the Carter administration without offering specific solutions of his

own, he is positive and certain about inflation and government regulation. He told the American Enterprise Institute of Washington, D. C., how he would attack inflation:

"First, I will tell our monetary authorities that they have only one job—to restore and maintain a sound dollar at home and abroad. Deficits may tempt the government to print new dollars, instead of paying back its debt with honest money. We can remove that temptation by balancing the budget, but we do not have to succumb to it in the meantime.

"Second, I will ask Congress to act immediately in beginning the necessary reform of our tax system.

"Third, I will attack excessive federal spending. The General Accounting Office says that up to \$50 billion, or one tenth of the federal budget, is simply wasted every year.

"Finally, I believe we need to accept the fact that federal regulation of the economy has exceeded the bounds of sensibility. Complying with mushrooming government regulation adds more than \$120 billion a year to the cost of doing business."

Inflation has been Gov. Reagan's favorite target in his campaign against big government. He reduces the problem to simple terms: "Inflation comes from the government spending more than the government takes in. It will go away when the government stops doing that."

—Vernon Louviere

Anderson

John Bayard Anderson has a trio of Republican heroes—Abe Lincoln for compassion, Teddy Roosevelt for dynamism, and Dwight Eisenhower for fiscal responsibility and decentralized government. However, the 10-term Illinois congressman has forsaken the GOP for a longshot independent presidential bid, and he is determined to follow in his heroes' footsteps to the White House.

A 58-year-old lawyer who represents his hometown of Rockford, Ill., Rep. Anderson can be characterized as an economic conservative and a social liberal; as such, he may appeal to a sizable segment of the business community.

A top long-term priority, Rep. Anderson says, is to rebuild the U. S. industrial base. "There are cracks in the foundation and holes in the roof, largely because the presidential staff structure is dominated by crisis managers

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After a grueling, come-from-nowhere primary battle, President Carter captured the delegates at the Democratic convention in 1976. He hopes to repeat that win.

and political operatives," he says. Rep. Anderson would emphasize business investment and innovation, restrain government interference in the marketplace, and remove barriers to American exports. He proposes an industrial development council patterned after state and local development agencies and aimed at "restoring a vigorous free enterprise system in America."

In Rep. Anderson's analysis, the steel and automobile industries are in deep trouble and even the healthy aerospace industry is feeling some pain. "Business, labor, and government all have a common interest in a remedy," he says. That remedy includes tax credits and accelerated depreciation. Rep. Anderson sees U.S. tax policy going in the wrong direction, rewarding debt, conspicuous consumption, and speculation, instead of thrift, prudence, and investment in innovative firms.

He would try to restore industry's competitive edge with a 10 percent tax credit for research and development and a 25 percent credit for qualified prototype research and development. He also favors a two percent cut in corporate taxes by 1986.

Capital formation through an accelerated depreciation program would have priority in an Anderson administration. "Capital formation is not really a business issue," he says. "It's a people issue. If we want an economy

that is capable of producing three million jobs a year, if we want to reduce the incidence of poverty and raise the standard of living, then we have to promote greater capital formation." Toward this end, Rep. Anderson worked successfully in 1978 to roll back capital gains taxes to pre-1969 levels.

As president, Rep. Anderson would move to balance the federal budget in 1982 through judicious cuts, a limit on spending—eventually to 20 percent of gross national product—and a cut in oil imports. Specific budget cuts include slowing the growth of social security payments to save \$3.5 billion and abolishing the Law Enforcement Assistance Administration.

Rep. Anderson's views on regulation and youth employment certainly coincide with those of most business people. He supports a regulatory reform bill establishing systematic reauthorization of federal agencies every eight years and termination if Congress does not approve periodic reform plans.

"Many government regulations as now written are confusing, duplicative, contradictory, overly broad, and ultimately counterproductive to our legitimate efforts to maximize both welfare and efficiency in a world of scarce resources. Despite the scoldings of the President, neither the process nor the product of our regulatory efforts has improved in the past three years."

Rep. Anderson would press for youth employment at 85 percent of the mini-

mum wage. "Numerous studies show that the minimum wage laws have the effect of eliminating job opportunities for young men and women."

Rep. Anderson's plans for inflation? Inflation, he says, is not a failing of the American people, but rather a failing of their political leadership. "Unless we can get the American people saving and investing again, unless we can boost our technology through more research and development, and unless we can upgrade the skills of the labor force, we will never halt inflation."

—Michael Thoryn

Kennedy

Edward M. Kennedy's prescription for the economy is a strong dose of liberal Democratic policies that would in effect make government the cure-all. Under a Kennedy administration, export opportunities would probably improve. New incentives for business to innovate and increase productivity would likely be introduced. And some present risks for small business might actually diminish. All with the help of big government.

Mandatory wage-price controls would be a strong possibility. Competing industries would be deregulated. Antitrust laws would be vigorously enforced. And acquisition-minded conglomerates would encounter more resistance from Uncle Sam.

Says the Massachusetts senator: "The numbers have nearly lost their capacity to shock. Twelve straight months of inflation over 10 percent. Wild gyrations in the price of gold. Interest rates at 15 percent. Unemployment approaching seven percent. And now a recession. I do not ask you to accept all the answers I offer. But I do ask that you expect from every candidate more than the same policies that have failed."

In an interview, Sen. Kennedy, 48, told NATION'S BUSINESS that it would not be a matter of more or less government under a Kennedy administration, but rather a more competent government. "My domestic policies would ensure continuity and predictability for the business community by eliminating the start-stop motions that have prevailed throughout the Carter administration," he says.

Soon after taking office, Sen. Kennedy would probably announce an across-the-board freeze on wages, prices, interest rates, profits, dividends, and rent. "This represents the last resort for restoring productivity, perhaps the

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underlying cause of double-digit inflation," he says. The freeze and further controls could reduce inflation by at least half within his first year as president, Sen. Kennedy believes.

Beyond the freeze, the price board would allow increases to cover rises in costs. The wage board would apply an incomes policy to review applications for increases. "The object," says Sen. Kennedy, "would be to break the psychology of inflation and convince the public at home and nations abroad that we are serious about fighting inflation. How can we be expected to assume a leadership role overseas if we can't even manage our own internal affairs?"

Predictably, Sen. Kennedy rejects the idea that deficit government spending is among the chief causes of inflation. "A balanced budget is an important economic goal and one that I support, but it is hardly an effective antidote to the epidemic of inflation," he argues. "We are facing an economic crisis, and we must deal with the fundamental causes such as lagging productivity, not the symptoms."

Some industries—petroleum and nuclear among them—state flatly that a Kennedy presidency would ultimately be a disaster. But some economists suggest that the liberal policies advocated by Kennedy the senator and the policies actually implemented by Kennedy the president would differ greatly. "Generally, presidents turn out to be very different from candidates, and that would be as true with Ted Kennedy as it would be with Ronald Reagan," says Gerhard Adams, a professor of economics and finance at the University of Pennsylvania's Wharton School of Business.

"Sen. Kennedy would probably be better for business than business thinks. Inflationary pressures should ease by early next year, and he might be less inclined to push for controls. But he would not provide the kind of direct stimulus to business that some of the other presidential hopefuls would."

Sen. Kennedy, who has been a prime mover to stimulate competition in several major industries, thinks of himself as leading the fight for regulatory reform. "Government can assist business without dominating it," he says. Still, he acknowledges that government interference in the private sector has exceeded reasonable limits.

Throughout the campaign, Sen. Kennedy has sought advice from mainstream Democratic economists such as the University of Minnesota's Walter



Once described as the melting pot of American democracy, conventions are rarely totally predictable. In 1976, the GOP winner—and loser—was President Ford.

H. Heller, who served under President Kennedy, and the late Arthur Okun of the Brookings Institution, who was one of President Johnson's top advisers.

Under a Kennedy administration, massive federal aid would be pumped into programs to ease unemployment. Businesses would be offered incentives to hire the hard-core unemployed, but would also probably be pressured even more to close the wage gap between men and women.

Sen. Kennedy has based his campaign on improving the national economy. While some believe that his economic theories are out of step with the times, he is convinced his approach is correct. The problem is that time may run out before he can convince the electorate. Still, Sen. Kennedy considers the nomination winnable. "Am I giving any thought to 1984? Sure—my second term."

—Tony Velocci

Bush

As a young Navy pilot in World War II, George Herbert Walker Bush made a bombing run on a Japanese base on the Bonin Islands in the South Pacific one afternoon—only to be hit by enemy ground fire. His navigator was killed, and Lt. Bush's own parachute ripped as he tried to bail out only a few hundred yards from shore. Once he hit the water, he bobbed about in a rubber raft for three hours until an American

submarine crew picked him up; then he spent 30 days on the sub as it dodged depth-charge and air attacks before he was safe.

Mr. Bush might categorize his presidential bid in the same manner... a dodging, ever-precarious attempt to stay alive. Despite some disappointing primaries, he has assured his closest aides that he is in for the duration. If that leads to the Oval Office, President Bush, 56, would first seek a balanced budget and then a \$20 billion tax cut; half would be aimed at business.

The best solutions to economic problems are simple in theory but difficult in practice, Mr. Bush says. "It is often suggested that economic fundamentals—tried and true approaches—have failed, and we must seek new, sometimes exotic solutions. I reject that counsel. Our principles have not failed us; we have failed them. It is time now that we face the hard realities."

One fundamental concept Mr. Bush supports is a self-regulating market. "George Bush believes in the market mechanics," says Stef Halper, his director of policy development and research. "His basic economic concepts did not result from brainstorming with a bunch of economists, but from first-hand experience. He made his fortune in the oil drilling business. He started his own company back in the 1950s, took the risks, put up the capital, and made it work."

Mr. Halper says Mr. Bush would run

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his administration as a dynamic and aggressive chief executive officer ready to delegate authority but maintain strong central control. His first priority would be to limit federal spending.

The second priority is the \$20 billion tax cut. "Roughly one half should be directed to individual taxpayers, encouraging greater personal savings and providing tax incentives for home purchases," Mr. Bush says. "I would also cut payroll taxes in a way that would not jeopardize the integrity of the social security trust fund.

"The other half of the tax cuts should be used to increase business productivity and investments. This would include more rapid depreciation, investment tax credits, and tax incentives to hire and train young workers and to create jobs—especially in areas of high unemployment. So that investments can be planned ahead, I would seek a one-percent-per-year cut in the corporate tax rate for each of the next five years."

But tax reform is only the first step, Mr. Bush says. More immediate relief would come from reducing government regulation, which promotes nothing but stagnation and complacency instead of competition. President Bush would push for a cost-benefit analysis of new regulations, aimed at easing regulatory burdens on smaller firms.

"I've heard George Bush compare government regulation between when he started Zapata Oil Drilling Co. and its current operation," Mr. Halper says. "The volume of regulation compliance has jumped 300 percent, and I would imagine the cost of compliance has also risen that much."

The former GOP chairman is quick to point out that his administration would be comprised of Republicans, an across-the-board amalgamation of Democrats, independents, business people, and others who support his concepts and theories. His primary economic advisers include Paul McAvoary, a Yale University economist; Alan Greenspan, mainstream conservative in the Ford administration; and Rudolph Penner, currently with the American Enterprise Institute.

As Mr. Bush comes closer to the Republican convention next month, he leaves no doubt that he will be a conservative president interested in bettering the climate for business. "Most Americans are prepared to take whatever steps are necessary to put this nation back on the road to economic and political sanity," he says.

—Roberta Graham

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Who the Recession Is Hitting Hardest

The outlook is bright for sales
and high technology managers, mixed for
financial types, poor for engineers

By Robert Parker

IN THE NORMALLY SUBDUED offices of Russell Reynolds Associates, a leading firm of executive recruiters on New York's Park Avenue, the news touched off a small celebration. The British government had just announced the appointment of an American executive, Ian MacGregor, to be chairman of the government-controlled British Steel Corp. At Russell

recruiters are trying to read the signals that will foretell employment trends in the recession that most think has arrived. Arthur Young Executive Resources Consultants, a branch of the international accounting firm, publishes an executive demand index showing that demand for business executives rose five percent in the year ending March 31, but fell by two percent in

I have ever seen them. People are very reluctant to move. And unsolicited resumes are up somewhat, but not dramatically."

The Chicago office of Heidrick & Struggles finds that the market continues strong in the Midwest for general management executives—people responsible for overall results and profit centers. Demand also is good in the Midwest for engineering professionals, but down for financial specialists. The firm also notes that the proportion of its assignments to fill newly created positions dropped from 46 percent in 1979 to 40 percent for the first quarter of 1980.

A recession compels corporations to examine their personnel needs with special care, spotlighting the positions that contribute most directly to profit and loss. Not surprisingly, demand for sales and marketing experts remains strong, up nine percent nationally in a year for manufacturing industries, up 27 percent in nonmanufacturing industries, and up a buoyant 47 percent in financial services companies. At the other extreme, demand for general management executives was down 47 percent last quarter from the demand in the previous year.

"The need for effective administrators continues to be very strong," says Arthur Young's Mr. Mruk. "Management is looking for administrators with high technology skills such as word processing to manage increasingly scientific and technologically oriented functions." Parallel to this demand is a strong need for experts in information management and data processing, both computer-related functions.

Robert Corey, a Connecticut-based headhunter, also reports high demand

California bankers are
hurting. Says one major
recruiter: "They're
running scared out here."

Reynolds, the event marked the successful conclusion of an assignment placed last October, when the British government engaged the New York consulting firm to help find a new chief for its troubled steel industry.

As it happened, the Reynolds candidate had several things going for him: Scottish-born, he had established an impressive track record as head of Amax, Inc., a major natural resources company in Greenwich, Conn., prior to his retirement there three years ago. He was intrigued by the challenge of the British job. And his prospective employers were so eager to get him they were willing to buy out his contract with Lazard Freres, the New York investment bankers, at a cost that may reach \$4.1 million.

Elsewhere in the executive job market, prospective employers, job seekers, and professional executive

the first quarter of 1980 from the year-earlier level. Says Edwin Mruk, managing director of the branch: "Management appears to be skeptical of all the warnings about recession and is continuing to hire." Most executive research firms, however, expect the market to weaken in the months ahead, although with many variations by region and by job function.

Robert Ankerson, an executive recruiter with Spencer Stuart & Associates in New York, uses a less formal set of indicators to measure the health of the executive job market—the number of new searches ordered by corporations, candidate responses, and the number of unsolicited resumes reaching his firm. "New search assignments are not growing at the rate they were," he says. "I haven't seen any disaster, but growth has slowed. Prospective candidates' responses are tougher than

in computer-related fields, fueled in part by the expectation of big new defense contracts that will shortly start pouring funds into the purchase of weapons with sophisticated guidance and control systems. The strength in this field radiates from the major defense contractors to a network of subcontractors across the United States.

Tooling at GM

Yet, somewhat surprisingly, the demand for engineering executives has slowed. Mr. Mruk believes that this is because the market has been strong for several years, and the present slowdown simply means that many companies have their major engineering executives in place.

Meanwhile, the market for young engineers, recent graduates not yet ready for executive suites, remains strong nationwide. Even General Motors, which is cutting its salaried staff by 10 percent, is still hiring young engineers to help tool up for the 1980s.

The outlook for financial executives remains mixed. While several executive recruiting firms reported a strong demand nationwide, the Arthur Young index records a three percent decline in demand for financial officers from first quarter 1979 to first quarter 1980. Most executive recruiters believe that the long-term future is going to be bright for financial specialists, whose skills in money management are crucial in times of high interest rates and falling sales.

In the money-market capital of New York City, the creation of the New York Futures Exchange, scheduled to open this month with 1,569 members, has touched off a mini-boom in the Wall Street area. Dozens of out-of-town firms are opening offices and hiring staffs to work in the new and fast-growing fields of money-market futures and foreign exchange trading. The opening of the new exchange will create as many as 1,000 executive jobs in the Manhattan financial district.

Trimming soft areas

Most executive recruiters agree that the softest area for employment in the months ahead will be in staff positions whose relation to the bottom line is distant and indirect. Public relations, public affairs, and advertising staffs are ripe for trimming when budgets are cut; so are other soft functions like corporate planning and industrial psychology.

Personnel administration offers a mixed bag. The Arthur Young survey

showed a decline of 16 percent for personnel executives, first quarter 1979 to first quarter 1980.

Yet, says Arthur Young's Mr. Mruk, this may reflect only a pause in a long-term climb. Salaries in personnel management rose more swiftly than those in other corporate areas as companies were forced to deal in new and more sensitive ways with problems of affirmative action and with management and disclosure questions in pension funds.

A job-hunting executive would be well advised to take geography into account in his search. While the cost of selling one residence and buying another at higher mortgage rates can be a deterrent to a job move, long-term growth prospects can make the trip worthwhile.

In Los Angeles, Mike McKeon, a recruiter with Houze, Shourds & Montgomery, says the shortage of housing plus California's high cost of real estate and mortgages is forcing some employers to develop imaginative ways to help prospective employees cope with relocation costs. Some companies grant a relatively generous one-time relocation bonus; others underwrite higher mortgage costs beyond a two percent differential between the old and new rates.

Running scared

All told, however, the general fiscal uncertainty has dampened the demand for executives in Southern California's troubled banking industry. Says Mr. McKeon: "They're running scared out here."

For the year ending March 21, Arthur Young found the greatest improvement in executive demand in the West and Southeast, the least in the Midwest and Southwest. Since the turn of the year, demand has picked up even more in the Southeast and strengthened in the Southwest.

One of the least promising areas is in the field of foreign assignments for U.S. companies. Political considerations increasingly lead companies to staff their overseas branches with host-country nationals; in addition, U.S. executives abroad face increasingly unfavorable federal income tax treatment. However, there are some mitigating conditions, even in the foreign field.

Russell Reynolds, for example, reports a brisk demand for experts and specialists to staff technical agencies for governments in the Middle East, particularly in Saudi Arabia with its

wealth in petro-dollars and its dearth of trained personnel. Reynolds recently was assigned to find 15 specialists to staff the Saudi Arabian agency controlling civil aviation. New York's Ward Howell, among others, is also looking for Americans to work for Middle Eastern governments.

Heading for Europe

The wave of foreign banks setting up U.S. operations has created job opportunities for banking executives to manage and staff the foreign-owned branches. Other foreign businesses, notably European manufacturers buying American companies with low-priced dollars, are also looking for managers for the U.S. subsidiaries.

The ever-changing field of executive employment even generates its own employment opportunities. A number of national agencies specializing in outplacement, finding jobs for displaced executives, report that their field is growing.

And *Consultant News*, which covers the field of executive search firms, says overall business in that area has grown by at least 25 percent a year for the past five years. □

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Just Leave Us Alone

That's what business leaders tell Washington



Treasury Secretary G. William Miller, who sees some progress in reducing the regulatory burden, says the administration won't take a meat-ax approach.

FOR THE PAST few months, the prime topic in Washington—where every movement in the economic statistics is laden with political overtones—has been the spectre of continuing inflation. Business leaders fear that excessive government regulation fuels the inflationary spiral, and whenever they get together they try to figure out ways to get the economy back to some semblance of normality.

These concerns were paramount in late April at the 68th annual meeting of the Chamber of Commerce of the United States, which opened at Constitution Hall just a few blocks west of the White House.

President Carter had been scheduled to speak at the opening ceremonies, but at the last minute he flew instead to San Antonio to meet the servicemen injured in the aborted efforts to rescue the hostages in Iran. His surrogate was Treasury Secretary G. William Miller, who chose government regulation of business as his subject.

The government has made "some progress recently" in reducing the burden of regulation, the Secretary contended, emphasizing that the adminis-

tration has no intention of taking a meat-ax to the regulatory process. Secretary Miller cited these examples of the administration's efforts to trim excessive regulation:

- Deregulation of the airline industry, which he said saved travelers \$2.5 billion in one year and spurred competition among carriers.
- Senate action to streamline controls over the trucking industry, which might save \$8 billion annually in freight costs.
- Reform of financial institutions to increase competition and phase out interest-rate ceilings on savings accounts, a boon to small savers.
- A new multilateral trading agreement that removes restrictions on exports, which should contribute to expanding U.S. sales overseas, improving productivity, and creating jobs at home.

Secretary Miller pointed to a 15 percent slash in federal paperwork as another gauge of success in dealing with regulatory problems. Other improvements: consolidation of equal-employment rules under the Equal Employment Opportunity Commission,

appointment of officials committed to what he called "vigorous and flexible" enforcement of regulations, a management system—including a regulatory calendar—designed to curb overlap and inconsistencies, and the Regulatory Council, which has announced 138 initiatives to improve regulation.

The administration's claims were not to go unchallenged. At a regulatory reform luncheon and panel discussion that same day, David McLaughlin, chairman of Toro Co., Minneapolis, Minn., noted: "Consumer groups, labor organizations, and the environmentalists will resist any changes." Mr. McLaughlin, chairman of the National Chamber's government and regulatory affairs committee, complimented the President for signing an executive order to open up the regulatory process. But he pointed out that agency compliance to date has been uneven at best.

"I've noticed in the past few years that we have been asking the important, searching question of whether we really need some of these regulations," said panel member Sen. Paul Laxalt (R-Nev.), a leader in congressional efforts toward comprehensive regulatory

reform. "We are attempting to bring a straight cost-benefit analysis across the board; not only for a single agency, but also in its relationship to other agencies and the government as a whole," Sen. Laxalt said, citing a broad-based coalition in the Senate engaged in the effort.

Danger of bad advice

"It is absolutely crucial to distinguish between the different types of regulation and not lump them all together," cautioned Nicholas Ashford, assistant director of the Center for Policy Alternatives at the Massachusetts Institute of Technology. "I'm really concerned that business is being given bad advice on regulation. A vigorous attack on regulations doesn't help the credibility of business."

"We need regulatory flexibility; the whole system needs to be loosened up," said Jeffrey Joseph, director of government and regulatory affairs for the National Chamber. He described the Chamber's efforts to take the "legal-ese" out of the regulatory process and put it all into everyday language.

Not content with just listening, six separate groups of conventioners fanned out across the nation's capital the next day for an unusual event—a townhall type of session with the regulators themselves.

FTC

At the Federal Trade Commission building on Pennsylvania Ave., business people had a face-to-face meeting with Chairman Michael Pertschuk.

J. W. Riehm, a vice president of Thomas J. Lipton, Inc., Englewood Cliffs, N. J., presided over the meeting as chairman of the National Chamber's Consumer Affairs Committee. "It is a common criticism that the FTC and other administrative agencies serve as both prosecutor and judge," he said. "The persistence and emotionalism of the criticism indicate that the FTC is rubbing a very sensitive nerve."

A doctor from Pennsylvania asked Mr. Pertschuk to explain why the agency favors advertising of professional medical services.

"What we are about here is an attempt not to regulate, but to deregulate."



FTC Chairman Michael Pertschuk faced an audience of business people eager to question commission practices. With him were Robert B. Reich, an FTC official, and J.W. Riehm, a vice president of Thomas J. Lipton, Inc., Englewood Cliffs, N. J.

late," Mr. Pertschuk replied. "FTC policy is that competition is the best regulator of the marketplace. We looked at overregulation at the state and local level and found that in the professional ranks state law has often closed off competition."

Explaining the controversial doctor-advertising rule, Mr. Pertschuk said: "The FTC said that it is an illegal restraint of trade for the states to put a flat ban on advertising."

A businessman from Michigan asked if the FTC is stifling small businesses competing with larger businesses.

"That's a very fundamental issue," Mr. Pertschuk replied. "Promoting competition means sometimes that smaller firms are going to be hurt, but the agency also protects small firms from the practice of bigger firms unfairly undercutting prices."

A New York businessman asked about the FTC's position on the size of companies. "The FTC is not opposed to bigness because economies of scale are important, but we have raised questions about companies merging when they are not in the same business," the chairman responded.

On the controversial question of public participation in rulemaking—the intervenor funding program—an Ohio local chamber representative was told that "Congress ensured participation not only by industry, but also by public interest groups who may not be able to afford it."

OSHA

General agreement on ends and means rapidly unraveled when the discussion turned to specifics, as Chamber members and representatives of the Occupational Safety and Health Administration met to discuss the agency's activities. All concerned favored safe and healthful workplaces, but...

Criticism of the agency's performance during its first five years is fully justified, said Basil J. Whiting, Jr., deputy assistant secretary of labor for OSHA. Those early problems are being corrected now, Mr. Whiting added, citing the abandonment of irrelevant standards, better training for compliance officers, new initiatives on workplace health, and the availability of state-run, on-site consultation.

OSHA is now spending \$40 million a



A. Vernon Weaver, administrator of the Small Business Administration, listens intently to a question from one of the National Chamber members participating in the dialogue with SBA representatives.

year—about 20 percent of its budget—on safety and health education programs, Mr. Whiting said, compared to 0.7 percent of its budget in 1977. Nearly three quarters of that amount is used for OSHA and state programs. Of the remaining \$11 million, about half goes to universities, one fourth to unions, and less than one fourth to trade associations. He expressed disappointment with the low level of association participation in the program.

Greater use of performance standards, rather than detailed specifications, was promised by Jerry L. Purswell, director of OSHA's directorate of safety standards programs. Within the next several months the agency will provide general performance standards on fire protection, electrical safety, and walking and working surfaces, he said. The general standards will be accompanied by detailed compliance guides for those who want a plan to follow, he added.

Cleveland businessman Charles H. Smith, Jr., a member of the National Chamber's senior council, expressed Chamber support for OSHA in general and for performance standards and educational efforts in particular. However, he urged the agency to abandon its policeman's role and concentrate on working with employers.

The OSHA reform bill introduced by Sen. Richard S. Schweiker (R-Pa.) was an obvious sore point for the agency delegation. Mr. Whiting termed it "draconian." Although acknowledging the desirability of concentrating in-

spection on the most hazardous workplaces, he charged that a statutory exemption of safe workplaces, provided in the bill, was inappropriate and was similar to income tax audits.

Business representatives repeatedly made the point that business has both moral and economic incentives to promote safety, and would do so even if OSHA did not exist. Mr. Purswell replied that his experience in the private sector taught him "the man who gets rewarded is the man who gets out the production," not the man with an overriding concern for safety.

SEC

"You can't let the game get out of hand; someone has to call the fouls such as favors to insiders and 'going private' at the expense of stockholders." That was the view of Stanley Sporkin, director of enforcement at the Securities and Exchange Commission.

What would happen without SEC regulation? "Regulation can't disappear because it would create anarchy in many areas," Commissioner Irving M. Pollack said. "Mischievous people would create an unstable, disorderly, competitive environment." The government's regulation of commodities trading kept the Black Thursday silver debacle from rippling into securities markets, he added.

The head of the SEC's new office of small business policy, Mary E. T. Beach, said the agency is cutting back on reporting requirements, particularly for small business. Stock offerings

and information required for SEC forms cost small business proportionally more than large firms in accounting and legal fees, Mrs. Beach explained. To cushion these costs, the commission now allows firms with offerings of \$2 million or less to file shorter forms with no need for an audited financial statement.

SBA

Small Business Administrator A. Vernon Weaver, Jr., predicts small business awareness may be the wave of the 1980s, much like the Great Society was the movement of the 1960s and consumerism the wave of the 1970s.

"You know everything here in Washington, D. C., goes in waves," Mr. Weaver told the men and women attending the small business session. "Small business may be the wave of the 1980s."

Most legislators seeking reelection, he predicted, will be running on a "Small Business Is Good For America" platform, and he urged National Chamber representatives to work closely with their elected officials to ensure better and more substantive representation for small business.

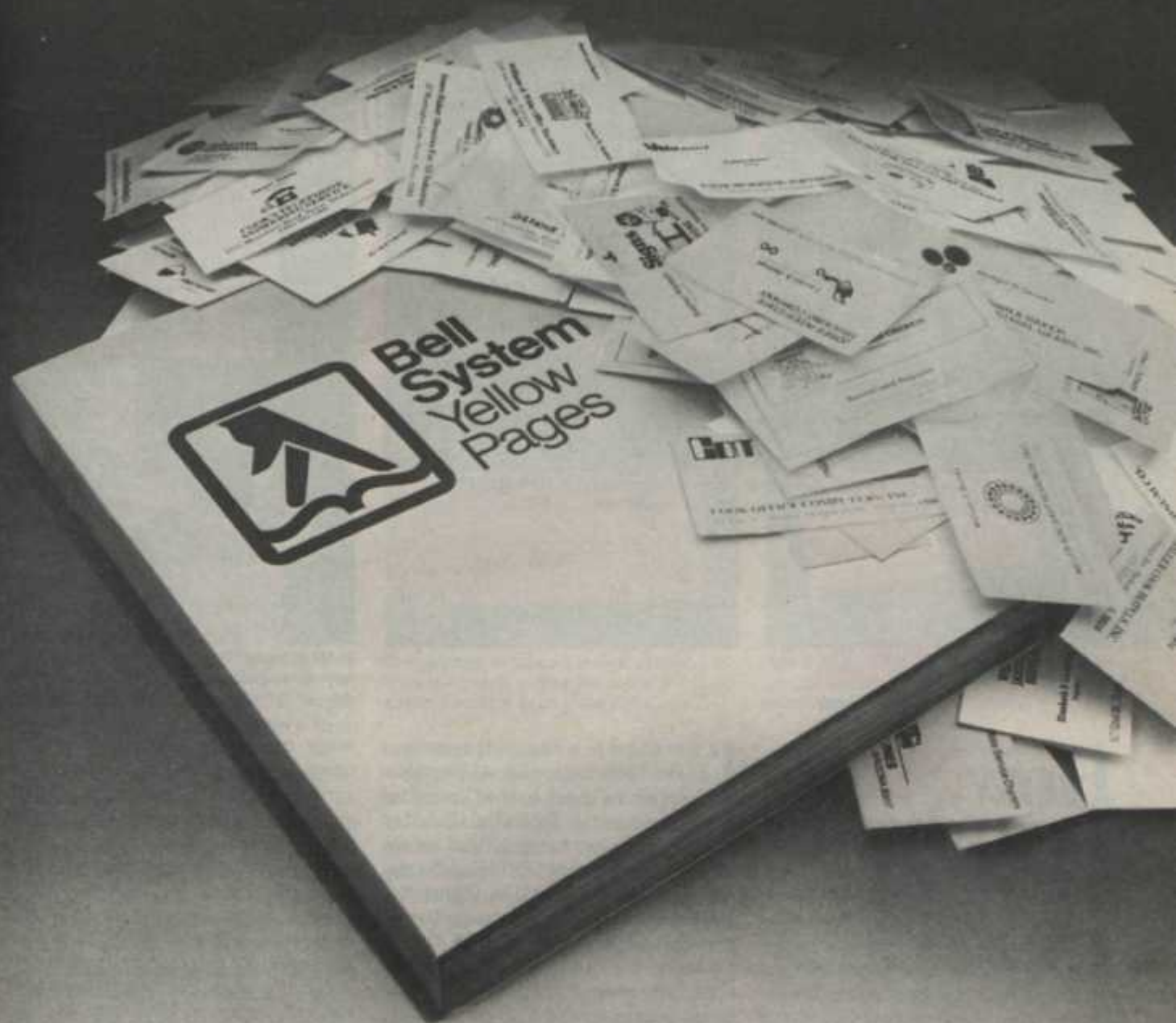
During the session, Mr. Weaver assured his audience that the agency is not turning into a minority business lending institution and denied allegations that SBA lends only to minorities. "We're not in the business to make loans solely to special interests," he said. "We have those programs, and we are delighted to make loans to women and to blacks and other minority businesses. But we're called the Small Business Administration, and we're in the business to make loans to all small firms."

EPA

Officials of the Environmental Protection Agency acknowledged that they had an early excess of zeal. But all that has changed now, they said, and they pledged more attention to costs and greater flexibility.

Barbara Blum, deputy administrator, apologized for the difficulty the visitors had in locating the room. "Our office space has not grown sufficiently to accommodate the expansion of the agency," she explained. "In fact, in this very room, when we are not meeting with groups, there are tables set up for our attorneys to work on regulations." She then hastily added, "I'm sure that makes all of you feel very comfortable."

It quite obviously did not. □



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Special interest groups, such as this antinuclear group demonstrating in New York City, seek to affect the results of elections or change laws or regulations.



In Manchester, N. H., placards help spread messages—pro and con—at a nuclear demonstration.

Campaign
'80:

How Special Interest Groups Use Their Power

By Vernon Louviere

IF YOU WANT to influence the outcome of the 1980 congressional elections, you can send a check to the Committee to Put Food on the Table, the Christian Voice Moral Government Fund, or the Committee to Defeat the Union Bosses.

Or you may prefer the Committee for Excellence in Government, Operation Split Ballot, or Friends of Family Planning.

In fact, more than 2,000 special interest groups have organized as political action committees (PACs) to raise funds to help elect or reelect members of Congress. Almost every conceivable interest—gun lovers, pro-abortionists, business, labor, women's rights, agriculture, energy conservation—is represented by a PAC whose main purpose is to give financial backing to candidates who come closest to supporting the views of those putting up money in their behalf.

While special interest groups in politics are receiving increased attention, they are hardly a new phenomenon on the American scene. Remember the Anti-Saloon League, the women's suf-

frage movement, and the pro-silver campaign, each of which was a pressure force of immense political influence? What is new is the proliferation of such diverse groups and the tight legal framework in which they must function.

Because money is the mother's milk of politics, few politicians turn their backs on PACs' financial assistance, especially since the money comes virtually unsolicited. However, there are dissenters. Rep. John Anderson (R-Ill.), who is running for the presidency as an independent, told a House committee:

"The manner in which congressional elections are currently financed is a national disgrace. Special interests view campaign contributions as a way to buy into the office of a present or future member of Congress."

On the other hand, PACs help soften some of the disenchantment with a political system which rising numbers of voters complain widens the chasm between them and their government. By making even small cash contributions

to a political campaign, they feel they have a voice in the political process.

"Special interest groups represent the free speech we used to have at the county level a hundred years ago," says Richard M. Scammon, a highly respected political analyst and director of the Elections Research Center in Washington, D.C.

In 1976, special interest groups contributed \$22.6 million to congressional candidates. The PAC share of contributions rose to \$35.1 million in 1978. By some estimates, this year's total could approach \$50 million. Little of this PAC money is channeled into presidential campaigns since those races are largely financed by federal matching funds.

Directed assistance

Some special interest groups spread their campaign largess among candidates with whom they are philosophically or ideologically attuned. Others single out candidates whose voting records show precisely where they have supported or failed to support positions of the donor organization. A case in point is the Air Line Pilots Association, a member of the AFL-CIO, which represents most of the nation's commercial airline pilots.

Last year the association's PAC raised more than \$200,000 among its members, many of them putting up \$200 to \$250, although the average contribution was in the neighborhood of \$50. Five pilots serve on a steering committee that determines how their contributions are distributed.

According to records on file at the Federal Election Commission, the pilots directed most of their campaign gifts to Democratic members of Congress in amounts ranging from \$250 to \$5,000. But a single check for \$10,000 was used to help pay for a Democratic congressional fund-raising dinner. Sen. Daniel K. Inouye (D-Hawaii), who is running for reelection this year, came in for the biggest slice of the pie—a \$5,000 donation.

Important criteria

"Sen. Inouye is a member of the Senate aviation subcommittee, and he also is a leader in promoting tourism to Hawaii, which, of course, is important to our industry," explains Robert Boni-



Campaigning for special issues, activist women's groups across the nation are a potent political force these days.

tati, staff director of the pilots' PAC.

Sen. Birch Bayh (D-Ind.), on the other hand, is chairman of the Senate transportation appropriations subcommittee, but came in for only a \$2,500 contribution. He is up for reelection.

One of the few Republicans singled out by the pilots is Sen. Nancy Landon Kassebaum of Kansas, who received one check for \$2,500 and another for \$1,000. Since she was elected in 1978 and her term does not expire until 1984, the money was offered to help pay off her 1978 campaign expenses, Mr. Bonitati says. The ranking Republican on the aviation subcommittee is considered friendly by the pilots.

"What we really look at when we earmark these contributions is to help those who have an understanding of and show sympathy for our problems," Mr. Bonitati explains. "Obviously, we look with favor on those who vote to install collision avoidance systems, navigational aids, and more up-to-date control towers at airports, which understandably are vital to pilots and the people who fly in planes with them."



Age is no barrier to special interest groups. This youngster joined a protest against an abortion clinic.

Most political action committees decide which candidates they will support, a condition clearly understood by the voters who contribute. An exception is the Council for a Livable World, headquartered in Boston, whose stated aim is "to combat the menace of nuclear war and strengthen national security through rational arms control." Its chairman is George Kistiakowsky, who invented the triggering mechanism on the atom bomb.

Only for senators

The council has a select list of several thousand regular contributors to whom it sends a monthly letter with a specific recommendation in each mailing for helping one or two senators. Money is raised only for senators—not representatives—on the theory, according to the council, that a single senator can have greater influence on issues of world peace than can any other individual besides the President. Only senators from the smaller states are eligible for assistance.

"We restrict our contribution to

small states because we can get more bang for the buck," says Jerome Grossman, president of the council. "Sometimes a contribution of a few thousand dollars can turn an election, and the council can take credit for turning that election."

When a voter writes a check for a candidate recommended by the council, the check is sent to the council, not to the candidate. Thus, the candidate is fully aware of the council's role in raising money for his campaign.

The council does not get involved in every race. Rather, it chooses those races where the differences between the candidates on arms control issues are clear cut. A senatorial candidate who supports the SALT II treaty and opposes the B-1 bomber and the MX missile, for instance, would have little difficulty getting tapped for a council recommendation.

"We simply believe in a minimum deterrent," explains Mr. Grossman. "It is insane to spend more for defense, and it is wasteful. We are not bothered that the Soviets spend more on national defense as long as they can't do anything to us."

Organizes constituents

Unique among political action committees is the one organized by the National Chamber Alliance for Politics in 1977. Instead of raising funds for candidates, the National Chamber PAC organizes constituent business people who work in behalf of candidates the PAC endorses. Business advisory teams set up around the country engage in fund-raising, advertising, and a wide range of research activity. The result is that far more business people are now directly involved in politics. The Chamber PAC is concentrating its 1980 effort on electing or reelecting 103 Senate and House candidates. In the 1978 elections, 60 percent of the 83 candidates endorsed by the PAC won, and three candidates in interim special elections were winners.

Many special interest groups have set their sights on the general improvement of government, including the Fund for Limited Government, the Good Federal Government Committee, the Fund for Better Government, the Committee for a Return to a Constitutional Government, and the Alliance for Good Government.

Stanton D. Anderson, treasurer of the Committee to Rebuild American Incentives, says of his organization: "Our single goal is to sponsor and enhance the concept of stimulating the

Federal Fence Corral Giving

Federal campaign spending laws have rigid limits on how much individuals and organizations can contribute to a candidate in federal elections. An individual can give no more than \$1,000 to a single candidate and up to \$25,000 for a group of candidates. Political action committees, on the other hand, are limited to a \$5,000 contribution to a single candidate in a primary and \$5,000 in a general election.

Both, however, have no limit on what they may contribute in behalf of a candidate as long as they are not directly linked to his or her candidacy. For example, they can buy billboard space, newspaper advertising, and television time in unlimited amounts. But it must be clearly understood there is no connection between the contributor and the candidate.

economy through tax relief. In other words, a stronger economy through better government."

When stockbroker Joseph Nelson Meredith, of Fresno, Calif., created the Committee to Put Food on the Table, he had in mind supporting candidates whose votes would improve the economic lot of farmers in the lush San Joaquin Valley, which supplies about a quarter of all the vegetables that wind up on the American dinner table. "We still have pretty cheap food today, but

The PACs Proliferate

Federal Election Commission records show 2,000 PACs at the end of 1979. This compares with 1,653 at the end of 1978. Last year's PACs included those organized by people from 949 corporations, 240 labor, 512 trade/membership/health, 250 non-connected, 17 cooperatives, and 32 corporations without stock.

The 1978 list of PACs included 784 corporations, 217 labor, 451 trade/membership/health, 165 non-connected, 12 cooperatives, and 24 corporations without stock.

if we keep putting restrictions on our agriculture, prices will go up," Mr. Meredith says.

Several PACs focus on the need for a sound, long-range national energy policy and carry such names as the Committee for a Voice in Energy-Action Policy, Citizens for an Honest Energy Policy, Committee for Energy Independence, and Citizens for a Responsible Energy Policy.

"We are looking principally at candidates who favor more coal utilization," says Daniel Gerkin, treasurer of the Committee for Energy Independence, a PAC set up by the Mining and Reclamation Council of America. "We are especially interested in those willing to back strip mining."

The very active National Organization for Women obviously is seeking candidates who support women's rights issues such as elective abortion. NOW, however, is strongly opposed to the single issue approach to political endorsements.

"We don't endorse very easily," says Alice J. Chapman, treasurer of the 100,000-member organization. "We could not endorse with good conscience somebody for the Equal Rights Amendment, but who is for cutting Social Security benefits for elderly women. Similarly, we might not endorse someone who is for elective abortion, but against some of the other things we believe in."

Legal right

The right to contribute financial support to political candidates through political action committees which meet the Federal Election Commission legal requirements has been clearly established. But the question has now been raised whether Congress, in passing federal election campaign laws, intended to allow PACs to raise money solely to defeat candidates.

In a preliminary ruling, the Internal Revenue Service has indicated it may disallow as tax credits contributions to "negative campaigns," which it has previously permitted. In the wake of this ruling, the Democratic National Committee and the Democratic Senatorial Campaign Committee have petitioned the FEC to notify all contributors of the IRS ruling so they will not unknowingly make a contribution they cannot later write off. IRS has not yet determined whether it will issue a ruling to this effect.

At issue is the National Conservative Political Action Committee which publicly announced a \$2 million campaign

paigned last August to defeat five Democratic liberals in the Senate, all of whom are in tough campaigns for reelection. They are Sens. George McGovern of South Dakota, John C. Culver of Iowa, Alan Cranston of California, Frank Church of Idaho, and Birch Bayh of Indiana.

"The IRS ruling is important because NCPAC is part of the New Right," Park Rinard of Sen. Culver's office told *Legal Times*. "They have an influence beyond that which appears because they build coalitions with other single-interest groups—such as anti-abortion, gun control, school prayer—and, as a consequence, from a standpoint of arousing the electorate, they do a considerable job."

Typical of the television campaign being waged against the five senators is a commercial appearing in Indiana. It opens with the picture of a large baloney sausage and a voice proclaiming: "One very big piece of baloney is Birch Bayh telling us he's fighting inflation." Then a \$46 billion price tag appears on the sausage and the voice continues: "That's how much deficit spending Bayh voted for last year alone. So, to stop inflation, you'll have to stop Bayh first. Because if Bayh wins, you lose."

More controversial

In the view of Paul M. Weyrich, director of the Committee for the Survival of a Free Congress, PACs built around such issues as Vietnam and environmental and consumerist concerns were active in the 1960s and 1970s, but aroused little controversy. But these single-issue groups now have become controversial with the creation and growth of conservative-oriented PACs.

Mr. Weyrich feels that the New Right should take a leaf from Franklin Roosevelt, who formed a coalition among unions, minorities, and the South. While each had a different reason to support the coalition, they constituted a cohesive force for decades.

He would like to see a coalition of the various New Right entities which, he predicts, could result in a new and dominant party in American politics.

There is little unanimity of opinion on the effectiveness of these special interest groups in swaying elections. Obviously, the people who contribute think their money is well spent.

"I certainly see nothing wrong in the way these groups are proliferating, and I can't find fault with the fact that some of them will focus only on a single issue," says Mr. Scammon, the po-



While political action committees seek to exert their influence in Washington and elsewhere rather quietly, other special interest groups seek visibility.

litical savant. "The nature of politics is to let the individual decide what is important. You can't force him into a mold of 18 or 20 stated positions."

Mr. Scammon is not concerned that candidates are unduly pressured by the support they receive from these groups. There is not likely to recur, he says, a scene played out on the floor of the Pennsylvania legislature many years ago when a member rose and said: "Mr. Speaker, the Pennsylvania Railroad has no more work for us to do, so I move we adjourn."

"Everything today is so open, so overt," Mr. Scammon points out. "It used to be that money was passed under the table or in a back room. That is no longer the case with all the laws we have governing campaign spending."

With more than 2,000 political action committees in operation, a voter would have no difficulty finding the ideological or issue group which matches a political view he espouses and is willing to back up with a check.

Consider, for example, Prune the Federal Government, Free Americans in Revolt, American Values, American Indian PAC, Association for Better Citizenship, Better Health Care PAC, Committee for Positive Change, Committee for the Advancement of Cotton, and, finally, Pear Growers for Responsible Government. □

PHOTO: LES MOORE—UNIPHOTO



A favored locale for demonstrators in Washington is the block of Pennsylvania Avenue that fronts the White House.



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The Small Business Report That Tried

The White House commission
had difficulty with data and
contradictory recommendations

By Roberta Graham

S MALL BUSINESS, as it turns out, doesn't have much of an ally in the White House Small Business Conference Commission.

The 11-member group, appointed by President Carter two years ago, gave him its long-awaited prescription for curing small business ills last month. The report was supposed to be an analysis and endorsement of 60 recommendations drawn up by 1,700 delegates to the Small Business Conference in Washington last January.

Unfortunately, it presents a generalized, rhetoric-filled outlook for the small business economy and includes only those recommendations the commission considers "most doable" by the next Congress. Although the commission was designed to be independent, it was influenced by the administration's changing fiscal policies, sources say.

Contradicting proposals

But the resulting report, according to sources at the commission, was due to a lack of credible economic data. Apparently, the lack of such information prevented the commission from substantiating many of the delegates' recommendations, as well as several of its own initiatives. In addition, the commission dropped many of the delegates' proposals because they were contradictory.

"Some of the [delegate] options appear to specify different measures to achieve the same ends and to vest equivalent powers in different agencies," the report says. "Some recommendations press for less government spending and interference in small business operations, while others seem to request more."

The commissioners, led by Arthur Levitt, Jr., chairman of the American

Stock Exchange, say that they considered the conflicts in drawing up the report. They felt that some of the broader recommendations, however, would be more attainable.

"We could have analyzed hundreds of programs regarding fiscal policy and government regulation," says Commissioner Steven E. Weinstein, an Atlanta real estate executive. "But the items we recommend can realistically be implemented."

The report devotes much space—but little substance—to government regulation and paperwork, despite the fact that "get government off our backs" was the main battle cry sounded at the four-day conference, and that two of the delegates' top 15 recommendations urged limited federal regulation.

The commission's report also ignores the delegates' calls to balance the federal budget, limit federal spending to a specified percentage of the gross national product, freeze the minimum wage, and reform the social security system. The official reasoning is that the commission intended to focus on issues that would have a direct benefit to small firms, not on those that affect everyone.

Some Capitol Hill experts agree with that thought. Thomas G. Powers, general counsel to the House Small Business Committee, says that such key issues as capital gains roll-over, innovation, and judicial procedure reform affect small business in particular. "Balancing the budget will be achieved regardless of small business's endorsement," he says.

"It would be just like a bunch of teachers coming to town and calling for a balanced budget. The most important result of this conference will be implementation of those issues specifically pertaining to small business."

Other issues the commission dealt with only in generalities include innovation, technology, energy, procurement, veterans, and government programs affecting small business. However, the commission report does endorse capital retention measures by recommending a graduated corporate income tax, tax relief for sole proprietorships, and a simplified and accelerated depreciation system.

The commissioners added several initiatives aimed at capital formation rather than retention. These include: An investment tax credit, expansion of the Subchapter S limit on the number of corporate shareholders, and the creation of small business participating debentures.

Part of the whole

"It would have been stupid for the commission to endorse the delegates' recommendations word for word," says William B. Cherkasky, staff director of the Senate Select Committee on Small Business. "That report is just a part of the whole. It fits together with the delegate report, with what Congress had already initiated, and with ongoing programs."

Since January, many of the delegates' recommendations have been incorporated into proposed legislation. The Democrats have introduced 13 bills based on the top recommendations. Senate Majority Leader Robert F. Byrd (D-W. Va.) has established a senatorial task force headed by Sen. Gaylord Nelson (D-Wis.) and including the chairmen of key Senate committees to expedite small business legislation. The Republicans, meanwhile, have formed an advisory committee of business executives headed by Sen. Rudy Boschwitz (R-Minn.) and have

What the White House Commission Wants

The White House Commission on Small Business says that the following recommendations, drawn from the 60 made by delegates at the January conference and published in a report to President Carter, "will contribute the most, in a strategic sense," to improving the economic environment for small business.

Capital

- Change the corporate income tax by pushing the top of the tax rate stepladder from \$100,000 to at least \$500,000.
- Grant comparable tax relief for sole proprietorships and the self-employed.
- Provide a tax credit for equity investment in new small business corporations.
- Allow Subchapter S companies to have up to 100 shareholders.
- Provide for the creation of the

small business participating debenture for investors.

Regulation/Paperwork

- Require all agencies to analyze cost and relevance of regulations to small firms.

International Trade

- Provide small firms with direct tax advantage for marketing their products abroad.

Minorities/Women

- Authorize 95 percent loan guarantees to small and minority subcontractors and to women subcontractors under equivalent provisions to finance startup costs.
- Penalize prime contractors if they do not meet their specified goals for using small, minority, or women subcontractors.
- Extend the enforcement of the Equal Credit Opportunity Act of

1974 to commercial lending to help women obtain financing.

Education/Management Assistance

- Establish SBA-monitored private sector resource consulting centers on pilot basis in selected cities.

Public Policy-Making

- Appoint the SBA administrator to the executive committee of the Economic Policy Group.
- Encourage each governor or legislature to appoint that state's White House conference delegation as a commission to conduct conferences with the goal of integrating state and federal actions to help small business.
- Develop courses on the economy in primary, secondary, and post-secondary schools to familiarize young Americans with economic, business, and entrepreneurial principles and theories.



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and even writes up lease contracts. Commodore paid for itself within weeks.

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drawn up an omnibus small business bill aimed at implementing the majority of the delegates' suggestions.

Nonetheless, some delegates charge that the commission report seems to white-wash their concerns. "This report was supposed to be a reference manual," says a delegate from Maryland who feels cheated. Others, like Gary Wellman, a delegate from New Jersey, are more vituperative. "I just don't think that it's right to ignore what the delegates have said. The whole idea of two separate reports creates a conflict," he says.

"I'm not sure why small business owners have to have a commission to tell us what we need. But I do know that most of us have been disillusioned with President Carter's attempts to help small business. Now comes this commission report. It makes us look like political fools."

As a practical matter, counters William Barth, small business expert for Arthur Andersen & Co., if the delegates had tried to construct a totally consistent program, they might not have needed the commission. "But if that had been tried, we'd probably still be in Washington," he says. "The two-

report system was probably the only way to get out of Washington alive, with some semblance of realistic political initiatives."

"In my opinion," says Richard Sanford, a small business owner from Kalamazoo, Mich., and delegate to the conference, "the commission report is just that. The small business recommendations have been published, and the whole world knows what they are."

Small business lobbyists agree that they really didn't expect much from the report anyway. And Ivan Elmer, director of the Center for Small Business at the U.S. Chamber of Commerce, believes the commission was wrong in depicting small business as a separate sector within the economy. "There is only one private economy," he says. "And the chief threat is not small versus large, but how much is left over after the government has decided it has taken enough."

James D. McKeivitt of the National Federation of Independent Businesses says the delegates "should be madder than hell that their priorities were ignored, and they should let the White House know that they are mad." Herb Leibenson, president of the National

Small Business Association, says small businesses should forget the report and press on with the legislative momentum on Capitol Hill.

Robert Heath, White House domestic policy adviser, predicts that the President will transmit a message to Congress suggesting specific legislation and endorsing other measures now in committee.

Meanwhile, small business people are not waiting for anyone's official endorsement of the work completed in January. For months, small business groups, including the U.S. Chamber's small business center, have been staging post-conference regional meetings to devise ways of implementing the conference agenda and to keep the pressure on Congress to do the same.

"Regardless of the report, the SBA, or the White House, we're going to move forward with our initiatives," says Nick Zoto, a Philadelphia entrepreneur. "The Pennsylvania delegation has been working to educate our own legislators. And our counterparts around the country are also organizing to do the same. We're going to get what we deserve, with or without the commission's endorsement." □

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BUSINESS DIALOGUE WITH

KOREA 1980





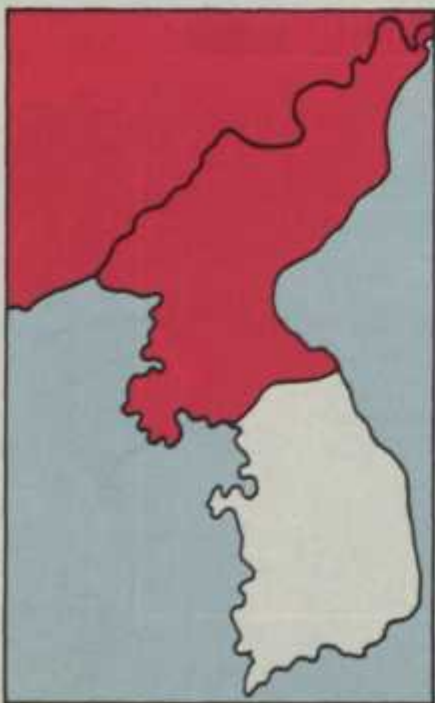
Introduction

What explains the astonishing economic comeback of the Republic of Korea after a devastating war? Was Japan the model? Can the still-emerging economy withstand the strains of oncoming world recession?

This report brings you up-to-date on a strategically placed nation that has become a showcase for Western-style economic enterprise on the mainland of Asia.

As the ROK approaches the end of its fourth "5-Year Plan," this "Business Dialogue With the Republic of Korea—1980" answers basic questions about the recent past and future plans of a nation of hard-working, energetic people that is now developing into a full-scale trading partner for the U.S. and other nations.

The answers to questions were supplied by ROK government authorities. Also included are messages about Korea's business policies and prospects from leading spokesmen in the Republic of Korea. ■



The Economy

Since the mid-1960s, Korea's national output has expanded in real terms by more than 10 percent per year. What are the basic factors behind this phenomenal growth rate?

Since economic growth in a country is usually determined by many different factors, it is difficult to identify what the really basic factors are. In general terms it would be safe to say that the rapid growth of the Korean economy has been attributable to the following five basic factors:

1. A shift in industrialization strategy from emphasis on import-substitution in the 1950s to export promotion since the early 1960s.
2. Political stability associated with a strong government commitment to economic development.
3. The rapid growth of the relatively well-educated and diligent labor force, as well as traditionally weak labor unions.
4. The rapid rise of an ambitious entrepreneurial class.
5. The relatively favorable external environment, at least until the world oil crisis of 1973-74.

Why do some Koreans resent the outside world's reference to Korea's remarkable economic growth as a "miracle"?

It might be because the Korean growth has not really been a miracle to the Korean people who have been directly involved. The Korean people have been working hard, while sacrificing nonessential consumption expenditures, for rapid growth of the national economy and improvement of their future living standards. An export-oriented policy followed by Korea also has been very helpful for the better utilization of the nation's growth potentials—mainly its diligent labor force. If any country follows a policy package similar to that of Korea, and if the people in that country work as hard as Koreans, that country can expect a high rate of economic expansion.

When the late President Park Chung Hee took control of the Republic of Korea in 1961, Korea was an impoverished and largely rural society with a minimum of communications, heavy industry, and economic independence. Is it true that neighboring Japan's industrialization was the model for the ROK's remarkable economic growth?

Industrialization and its success in Japan were not exactly the model for Korea. It is more correct to say that the success story of Japan inspired desire for industrialization in the Korean people. Many Koreans felt that if the Japanese succeeded in industrialization, we in Korea could do it too.

Since we are the latecomer in the industrialization process, we also have tried to benefit from Japanese experiences. Koreans did not want to repeat the mistakes the Japanese made. We have been emphasizing interindustry and intraindustry specialization in promoting industrial development, instead of promoting all domestic industries as the Japanese did in the past.

How has the U.S. participated in Korea's economic recovery and development?

U.S. participation in Korea's economic rebirth since 1945 is characterized by three different phases: relief assistance, recovery assistance, and economic cooperation with Korea as a solvent trading partner.

Relief assistance was paramount in the period 1945-53. The first Republic of Korea was born in 1948. Then, the outbreak of the Korean War in 1950 necessitated emergency relief rather than economic recovery assistance.

Recovery assistance began in the period of 1953-60. Relief continued but the role of recovery assistance increased by the late 1950s.

Economic cooperation with Korea as a solvent trading partner marked the period of 1961-79 during which the Korean economy completely passed out of the recovery phase and entered into a rapid economic growth phase. There was remarkable export growth under the outward-looking strategy adopted for four consecutive five-year economic plan periods, 1962-1981.

Relief assistance was first received in Korea through the GARIOA (Government and Relief in Occupied Area) program that provided \$409.7 million in grants of basic consumption goods, including rice and fertilizer during the USAMGIK (U.S. Army Military Government in Korea) period of 1945-48.

The ECA (Economic Cooperation Administration) recovery assistance under the Foreign Assistance Act of 1948, which was similar to the Marshall plan for European recovery, was being prepared in 1949 with the birth of the first Republic of Korea in 1948. The recovery program had to be replaced by relief aid due to the outbreak of the Korean War in 1950. Thus, (continued on page 4K)



M. J. Ackerman
President
American Chamber of
Commerce in the
Republic of Korea

AmCham—In Tune With Today's Changing Korea

The year 1980 may well be a pivotal year for Korea, both politically and economically. Korea's rapid and dynamic growth is being moderated and priorities are shifting towards greater degrees of stability and maturity.

Current uncertainties notwithstanding, most American businessmen in Korea believe Korea's most outstanding natural resource—its people—have the ability, strength, and courage to modify its recent patterns of economic progress to regenerate the phenomenal results of the past.

AmCham in Korea is in tune with the dynamics of living and doing business in Korea. Organized on a functional basis with standing committees covering all major government, industrial, and commercial interests to the American businessman, AmCham is a well recognized interface with the Korean government and industry.



Woo Keun Kim
Acting President
Korean Traders
Association

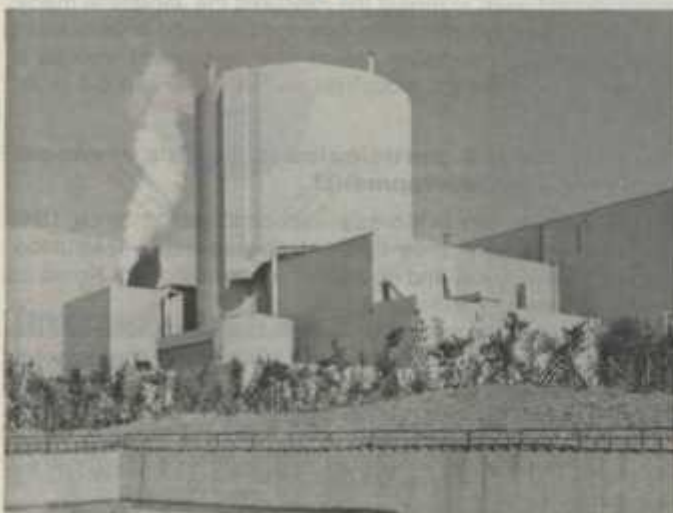
Korea's Outward-Looking Economic Strategy

Korea has been able to achieve remarkably rapid economic development during the past two decades, thanks chiefly to her outward-looking economic strategy. Throughout this period, the U.S. has played a crucial role in supplying Korea with needed goods and materials as well as export outlets. The U.S. also has been one of the major sources of investment capital and advanced technology.

Now, Korea has fully matured as one of America's major trading partners, with a two-way trade volume of \$9 billion for 1979. Keeping this in mind, I would like to particularly emphasize even closer cooperation between our two countries to ensure a freer flow of goods, capital, ideas, and people across the Pacific in the coming years.

The Korean Traders Association, or KTA, composed of 2,400 licensed exporters and importers, is willing to serve you as a bridge to facilitate your business contacts with Korean traders. Trade inquiries are given prompt replies, free of charge. You all are cordially invited to utilize this service.

BUSINESS DIALOGUE WITH
KOREA
The Economy



the ECA program—designed initially as a long-range economic recovery program to make the Republic of Korea self-sufficient—was aborted by the abrupt interruption of war.

Relief type aid of \$109.1 million was granted in the 1949-53 period. During the Korean War, 1950-53, the mainstream of relief assistance was provided by CRIK (Civilian Relief in Korea) through \$457.4 million in grants and technical assistance. Other United Nations member countries participated, although the U.S. contribution overshadowed the total. Relief aid came through FOA (Foreign Operations Administration), and the former ICA (International Cooperation Administration), which provided \$33 million in grants.

After the war ended, how did Korea go about the monumental task of economic recovery?

When the war ended in 1953, U.S. economic assistance gave new impetus to the economic recovery that had stopped

during hostilities. The U.S. recovery assistance program was formulated for the first time with a long-range view of making the Republic of Korea not only self-sufficient in production and consumption but also in military defense against the continuing threat of war with the northern communists.

When did Korea emerge as a viable trading partner for the United States and the rest of the world?

The period of economic cooperation between the U.S., and Korea as a solvent trading partner, can be said to have started in 1962 with passage of the Foreign Assistance Act of 1961 under the Kennedy administration.

The Act of 1961 became an important landmark for a new concept of economic aid. It implied a departure from the defense-support-oriented assistance of the 1950s into economic-development-oriented assistance, concentrating more on development loans than grants and emphasizing the self-help capacity of the receiving country.

Under this act, grant aid was to decline rapidly while long-term loans of much smaller size at preferential terms were to replace grants. These aid policy changes in the U.S., beyond control of the Korean people, prompted the newly elected civilian government of 1960 to reopen commercial trade with Japan—barred until then by the standstill of normal diplomatic talks between the two countries.

Although exports of mineral ores and fishery products to Japan increased in 1960 and 1961 as a result of reopened trade, it did not much contribute to closing Korea's large trade deficits. These were subsequently financed by U.S. economic aid through ICA.

What changes in policy resulted from the military revolution on May 16, 1961?

The new Korean government immediately adopted a domestic savings promotion policy, an export incentive policy, and a foreign capital inducement policy.

As these policies were pursued with the first five-year economic development plan (1962-66), exports grew rapidly. With export growth, public loans and foreign commercial capital started to come in by the mid-part of 1960. U.S. economic assistance, however, continued to finance the still-large balance of payment deficits.

(continued on page 6K)



Suk Won Kim
Chairman
Ssangyong Group

Mutual Friendship and Cooperation

The Republic of Korea has demonstrated marvelous economic growth throughout four consecutive five-year economic development plans.

Ssangyong Group, as a leading business conglomerate in Korea, has played an important role in the development of the Korean economy in cement, trading, oil refining, shipping, paper, insurance, construction, machinery, electronics, transport, mass communication, education, and cultural activities.

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John Mackay
President and
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Davy McKee has been active in Korea for some 15 years and currently is providing services for three chemical projects in various stages of completion. At Onsan, Davy McKee was the technical coordinator for a European consortium which last year completed a \$180 million copper smelter and refinery for the Onsan Copper and Refining Company.

Having established an office in Seoul in 1978, we are deeply committed to the industrial progress of Korea and look forward to increasing participation in the large and complex projects that will be needed for the realization of Korea's full industrial potential over the next decade.

Why Korea 1980?

Korea's Economy Approaches Full-Blown Maturity

William H. Gleysteen, Jr.
Ambassador of the
United States to the
Republic of Korea



The year 1980 finds the Republic of Korea at a significant crossroads in its political and economic evolution. In the political sphere, the nation's leaders are faced with the delicate and challenging task of forging a new constitution that will meet the aspirations of the people for orderly progress toward political liberalization. Economically, the country is going through a massive shifting of gears, from the almost frenetic growth of the past two decades to a more moderate, stable, and market-oriented growth better suited to the economy's present stage of development.

This is not to say that Korea will be insulated from the problems we all face in the next year or two. Almost completely dependent upon imported raw materials, Korea has been particularly hard-hit by the latest wave of oil price increases. The cost of imported oil is likely to double in 1980 to a new high of more than \$6 billion—more than a quarter of all Korea's imports combined. In typical Korean fashion, however, the nation's leaders have "bitten the bullet" by allowing domestic oil prices to rise by over 150 percent in the past year, while pursuing tough austerity measures to bring overall inflation back down to an acceptable level. In the meantime, Korea is moving energetically to reduce its dependence on imported oil through conversion to coal and nuclear power facilities.

By any standard, the nation's long-term economic prospects appear to be excellent. The factors that have figured in Korea's success up to now—a hard-working and well-educated labor force, an alert entrepreneurial class, a talented corps of economic planners, and a durable sense of national unity—should continue to play a decisive role. The next crucial step in the country's economic development—liberalization of the economy from tight central control to a greater reliance on market forces—is one which has been accepted in principle, and is being pursued with determination.

The special ties of friendship and mutual self-interest which bind Korea and the United States appear likely to grow even stronger in the future. ■

Korea to Strengthen International Economic Cooperation

Woun Gie Kim
Deputy Prime Minister
for Economic Planning
Republic of Korea



Over the past 20 years, Korea has achieved remarkable economic success. This progress has been primarily the result of an economic development strategy based on the pursuit of trade expansion and the strengthening of international economic cooperation. Nevertheless, despite Korea's past gains, the development process is still far from being complete and further substantial growth is required.

In the future, however, we cannot expect the international economic environment to continue to favor a high rate of growth. Currently, for example, it seems extremely unlikely that a quick solution will be found to the pressing world problems of economic stagnation, chronic inflation and currency instabilities. In particular, also, the developing nations are suffering from severe price rises and growing balance of payments deficits, both greatly aggravated by the oil price hike and the upsurge in trade protectionism in the industrial countries.

Despite this unfavorable environment, Korea will be striving to consolidate its open economic system by actively encouraging direct investment from overseas and enlarging the scope of business activities open to foreign corporations and banks so that they may participate more fully in Korea's economic development.

As far as our financial policy this year is concerned, the main emphasis will be placed on economic stabilization by maintaining the money supply at an appropriate level and, in line with this, we plan to promote selective credit activities, fiscal discipline, and the internationalization of the financial sector.

As soon as the circumstances allow us to do so, Korea will return to a policy of a high level economic growth based on trade. Increasingly, however, these overseas sales will take the form of heavy industrial and chemical products in addition to light industry items. We will, therefore, be endeavoring to strengthen our international competitiveness through improving the quality of export products. In addition, of course, we will strive to enlarge and deepen our international economic relationships in all areas of finance and investment. ■

KOREA

The Economy



U.S. economic assistance declined rapidly in the 1960s, relative to the 1950s. What impact did this have?

Foreign capital in the form of long-term loans, both governmental and commercial, started to come in. This helped ease the economy's resource gap, which economic assistance previously filled.

Long-term governmental and commercial capital loans and foreign investment received in Korea from 1959 to 1979 totaled \$16,215 million, of which the public loans including development loans under the AID and the IBRD loans constituted 36.1 percent of the total or \$5,849 million and the commercial loans constituted 57.8 percent or \$9,367 million while foreign direct investment constituted 6.2 percent or \$999 million.

Of this, 25.7 percent came from the United States; 22.6 percent from Japan; 21.3 percent from European countries; and 15.6 percent from international lending institutions such as IBRD, IDA, IFC, and ADB.

Of this external capital received, 8.9 percent was used in agriculture, forestry, and fishery sectors; 44.4 percent in manufacturing sectors, including textiles, chemicals and the metals

industry; and 46.6 percent in the social overhead capital service sectors.

As a result of foreign capital inflow, the debt service ratio also increased. In 1971, the ratio of total principal and interest payments to current receipts including commodity exports and invisible exports stood at 19.7 percent. As both commodity exports and invisible exports increased, the debt service ratio declined to about 13 percent in the late 1970s. This debt service ratio is regarded as relatively low compared to other developing countries.

What resulted from the inflow of capital in the past two decades?

The continuous and smooth inflow of foreign capital in the 1960s and 1970s directly contributed to rapid economic growth of over 10 percent per annum on the average achieved in this period, through the financing of large investment projects, imported capital equipment, and raw materials for domestic use.

At the same time, remarkable export growth of over 35 percent in real terms per year on the average in this period contributed to expansion of manufacturing—another spur to the economy. With export growth, Korea's debt servicing capacity also improved. That, in turn, made Korea still more attractive to foreign capital.

As trade expanded, the cooperation between Korea and the U.S., which started with recovery and relief assistance in 1945, changed to a partners relationship.

Of Korea's exports, the share going to the U.S. market increased from 16.6 percent in 1961 to over 30 percent by the late 1970s. The share of Korea's imports from the U.S. declined from 45.4 percent in 1961 to about 20.3 percent by 1978.

This decline in Korea's import share from the U.S. reflects the rapid decline in U.S. aid and the gradually increasing diversification in Korea's import market, financed by her own foreign exchange earnings. It should not be interpreted as reflecting a trade diversion from the U.S. but rather reflecting Korea's increasing trade with the rest of the world.

What is the status of U.S.-Korea trade today?

The absolute level of imports from the U.S. market rose from \$143.4 million in 1961 to \$584.8 million in 1970 and to \$3,043 million by 1978. Thus, Korea's relationship has progressed to that of a solvent trading partner.

(continued on page 10K)



P. H. Koo
President
Honam Oil Refinery
Co., Ltd.

Excellent Investment Opportunity

Korea is an excellent investment opportunity, in spite of the uncertainties that many people say they are bothered by of late. A slowdown is not at all surprising considering the world economic situation, but it would be a grave mistake to underestimate Korea. After a decade of truly amazing economic growth, I have every confidence that this will prove to be a transition to a sounder, more mature economy.

My own company, Honam Oil, is a joint venture with Caltex of the U.S.A. and is a perfect example of how productive a binational venture can be here. It is joined in this by no fewer than nine other highly successful joint-venture members of The Lucky Group alone, not to speak of dozens of enterprises not related to ours.

It's interesting to note that the same issue of *Institutional Investor* (March 1980) which reported bankers' "jaundiced appraisal" of Korea's credit rating, also carried an announcement of the financing by banks for Honam Oil's US\$200,000,000 refinery expansion project.



Tai Ho Lee
Chairman & President
The Export-Import
Bank of Korea

The Korea Eximbank's Role . . .

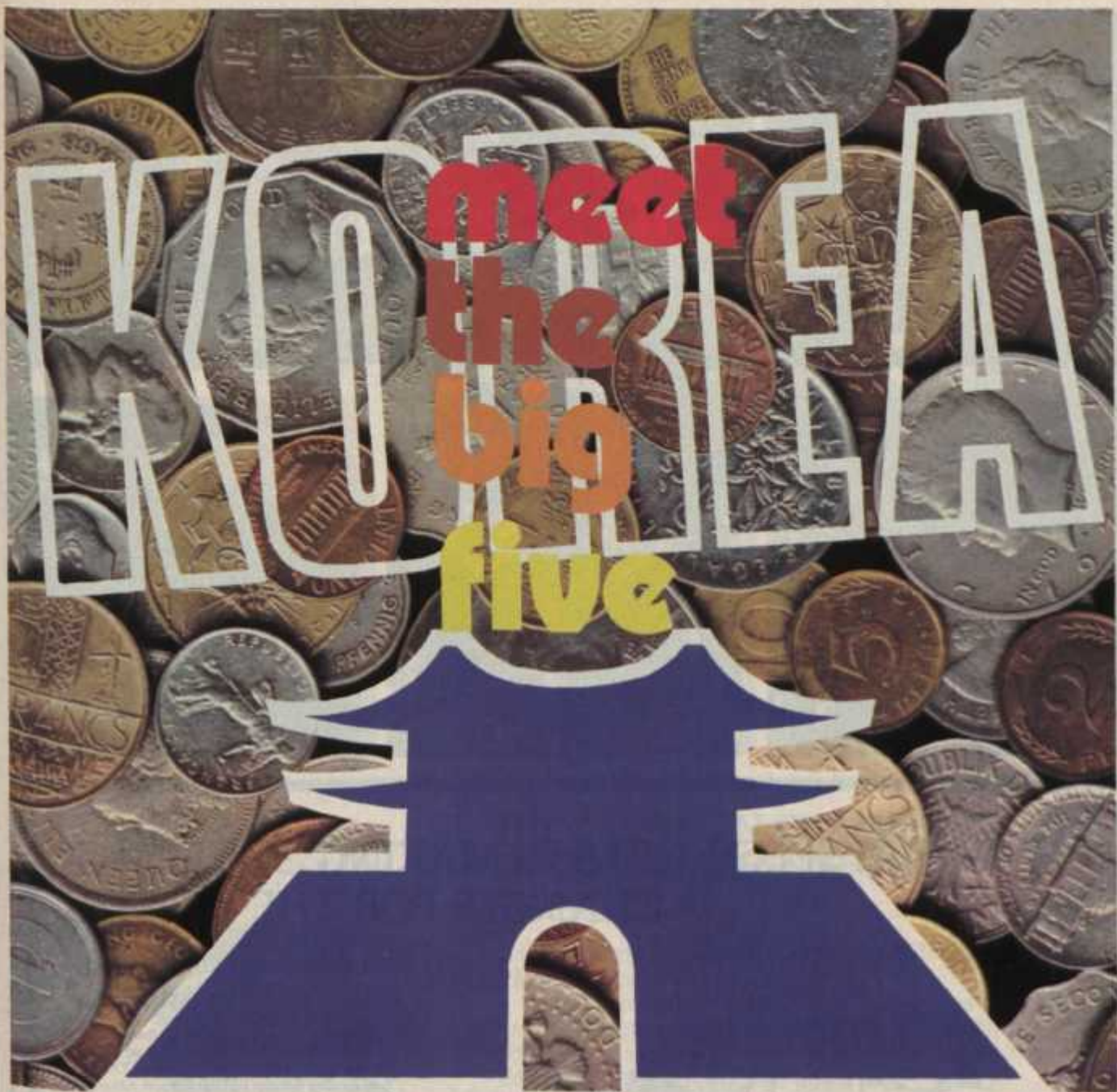
Since its founding on July 1, 1976, the Korea Eximbank has played a vital role in promoting the foreign trade of Korea.

The recent deterioration in the world economic situation as well as the export orientation of the Korean economy calls for an expansion of the bank's role in developing our nation's exports.

The Korea Eximbank not only finances medium and long-term credits for the export of Korean goods, technical services, and overseas investments, but also operates the export credit insurance business.

In order to support foreign purchases of capital goods of Korean origin, the relending facility and the direct loan program were recently introduced as supplements to the supplier credit facility.

During the coming year, we foresee an even greater expansion of our role in promoting the sound growth of the Korean economy and in building even stronger economic relations with the world community.



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THE AMERICAN CHAMBER OF COMMERCE IN SEOUL WANTS YOU . . .

to take a good look at the diversified opportunities in doing business with Korea.

The "economic miracle" that Korea has experienced over the past decade did not come about by accident, nor did the many successful foreign joint-ventures that were established here and that have contributed to Korea's impressive track record.

At last count, there were over 160 international firms doing business in Korea who also hold company memberships in the AmCham Korea branch.

The fact that these corporations, some of them ranking among the largest companies in the world, are here doing business indicates their confidence in the Korean economy and its political situation.

The AmCham Korea branch, founded in 1953 with a broad mandate to encourage the development of two-way trade and commerce between Korea and the United States, stands ready to assist you in doing business with Korea.



AMERICAN CHAMBER OF COMMERCE IN KOREA

3rd Floor, Chosun Hotel, 87, Sokong-dong,
Chung-ku, Seoul 100, Korea Tel. 23-6471



The Economy (continued from page 6K)

The annual trade volume of \$4,058.7 million exports and \$3,043 million imports totaled about \$7.1 billion in 1978. At the same time capital flow increased from an economic aid flow of about \$250 million on the average in grants per year during the 1950s to outstanding governmental and commercial capital loans of about \$4.2 billion by 1979.

Furthermore, the aid component in the capital flow between the two countries vanished by the late 1970s except for governmental loans channeled through the World Bank or other multilateral lending institutions for which the U.S. provided the bulk of funds.

How much financial cooperation does the ROK now require from Washington?

In the 1980s Korea faces the need for further cooperation in three inter-related areas. They are the oil supply problem, trade promotion, and technical and investment requirements.

The oil shortage undoubtedly exercised a growing strain on economic growth in the recent past. The oil supply in Korea has been relatively stable, thanks to the smooth although strained supply of crude oil from OPEC through the U.S. oil companies in Korea. However, the prospect of recurring oil shortages in the future may put Korea under increasing pressure from a deteriorating balance of payment position.

This means Korea has to export more and more in order to pay for the deficit. And at the same time Korea needs more foreign capital, not only to finance export industries but also to finance the external debt.

Nevertheless, Korea's debt servicing capacity is still satisfactory and on this ground financing of debt poses no serious problem. However, Korea will need to increase nuclear power generating facilities and coal-fired power facilities to substitute for oil-based energy. For this purpose, Korea will need more aid in technical assistance and project financing.

The second problem, related to the trade expansion between the U.S. and Korea, is another important area over which the two countries need greater cooperation. As manifested in the



past, it has proved in practice that more trade is preferable to loans, and more loans are preferable to grants for developing countries except in the case of natural disaster or war.

Although Korea has progressed rapidly toward becoming a solvent trading partner, its trade expansion remains still the most important key to continued economic development. Currently rising trade restrictions against imports from developing countries among the advanced industrial countries must be affecting adversely Korean export growth. This in turn will definitely impose a serious constraint on continued economic development.

Korea as a trading partner of the U.S. will need to expand its exports in order to remain a factor for stability in East Asia.

The third problem—technical and investment cooperation—will be an important area which will ultimately benefit both the U.S. and Korea in the scheme of an effective international division of labor. With accumulation of technical and skill experiences in Korea, the industrial structure is changing gradually from dominance by labor-intensive, light-manufacturing sectors to a leading role for capital-and-skill-intensive heavy manufacturing and chemical sectors.

In this process of structural change, Korean industries will have to look increasingly for more advanced technology and skill experiences, not only in materials sectors as in manufacturing but also in social overhead capital service sectors such as construction, communications, and transportation.

(continued on page 12K)



William K. Stephens
Representative Director
and General Manager
IBM Korea, Inc.

Confidence in Korea

For the past 14 years IBM Korea has enjoyed impressive growth in an exciting and dynamic environment. The company is proud to have played its role in assisting customers in applying data processing technology toward improving management effectiveness and increasing productivity.

IBM Korea's confidence in the future is firmly founded on its experience with the skills, dedication, and productive potential of Korean men and women. Korea's "economic miracle" was not circumstantial. It was achieved through the intelligent hard work of its people. It is these same people who will continue to carry that miracle forward into the future.



Joon Sung, Kim
Governor
Korea Development
Bank

KDB Backs Korea's Economy on the International Scene

Since its establishment, the Korea Development Bank, the largest and most important financing institution in Korea, has directed its efforts to the development of Korean industry. Half of the total capital investment loans to major industries in Korea have been supplied by the KDB.

In addition to its domestic financing activities, the KDB has emphasized the internationalization of its business through bond issues and inducement of syndicated loans.

The KDB is an international bank with assets of US\$13 billion, serving as a financial advisor to key Korean industries and as an investment counselor to those who want to share in the dynamism of Korea's economy.

I wish to take this opportunity to extend my greetings and thanks to the friendly financial institutions of the KDB around the world, and hereby sincerely request continued cooperation and support in the coming years.

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The Economy (continued from page 10K)



In these areas both new skills and financing are necessary. Such cooperation will help the Korean economy to attain a higher level of technology. Economic cooperation can be extended to overseas activities, covering a wide range of jointly financed projects such as a joint investment firm for resource development in the resource rich countries or a joint construction project in the Middle East oil producing countries, or elsewhere. These cooperative activities will no doubt be mutually beneficial by exercising an appropriate division of labor—Korea can undertake the labor-intensive parts while the U.S. can provide the high-technology and capital-intensive parts.

What percentage of Korea's labor force is occupied with the country's more traditional agriculture, fishing, and forestry industries vis-a-vis manufacturing industries?

The employment share of the primary sector (farming, fishing and forestry) declined from 59 percent to 38 percent of total employment between 1965 and 1978. The share of mining and manufacturing and the social overhead and other services sectors increased respectively from 10 percent to 23 percent, and from 31 percent to 38 percent.

What steps are being taken to curb Korea's double-digit inflation rate?

Price stabilization is one of the few areas where performance of the economy has fallen short of its aims.

In April 1979, the government adopted a far-reaching stabilization policy to slow down the overheated economy and curb the high rate of inflation. The general strategy was to follow tight monetary and fiscal policy, while making basic structural changes in the economy aimed at giving greater play to market forces.

Major measures taken to control inflation are: drastic reduction in the growth rate of money supply, substantial fiscal surpluses in the government sector, review of investment projects in the heavy and chemical industries, and rigorous pursuit of the import liberalization program. At the same time the ROK government has taken price controls off a large number of commodities. This was in recognition of the inefficiencies and long-term ineffectiveness of price control.

After the initial period, when the open inflation caused by decontrol of prices dominated the situation, the stabilization policy seemed to start to have effect. The inflation rate slowed down considerably in the fourth quarter of 1979.

Unfortunately, however, other external and internal considerations necessitated major policy changes in January 1980, even before the stabilization policy had its full effect on the fight against the inflation. In January, the government announced the twin measures of the devaluation of the won currency and the upward adjustment of the interest rate.

The devaluation and the oil price hike in January have aggravated inflation temporarily. And the resultant inflation rate in the first quarter of 1980 was too high. However, most of the necessary price adjustments have already been made.

As a result, it seems that the rate of inflation has considerably slowed down. The overall tone of the stabilization policy that has been maintained throughout this period will eventually have a dominating effect on inflation. The prospect is rather good if circumstances do not change drastically. ■



Choon Taik Chung
Chairman of the
Board of Directors
& President
Korea Exchange Bank

Your Financial Partner In Korea

Korea's dynamic growth record since the early 1960s has won universal acclaim as a model of successful national development. One of the traditional pillars of this growth performance has been our strong economic relationship with the U.S., and the special bond between the two countries seems sure to continue growing in the future.

Korea Exchange Bank has been a vital component in Korea's national development, and our unique contribution to the bilateral economic relationship with the U.S. is one of our proudest achievements. We not only work closely with leading American banks to raise funds for Korea's development, but also promote mutually beneficial trade by structuring special financing packages for imports and exports. In addition, we are active in merchant banking, syndicated loan management, international capital market operations, etc.

KEB is Korea's largest commercial bank in terms of assets (US\$ 14,009 million) and international branch and office coverage (including New York, Chicago, Los Angeles, Houston, and Seattle).



Je-Hoon Koh
Chairman
Korea Non-Life
Insurance Association

Fast Growing Insurance Industry

The Korea Non-Life Insurance Association was formed on August 1, 1946, to develop the Korean non-life insurance market. The association consists now of 10 general insurance companies; three professional underwriters for reinsurance, automobile, and bonding respectively; and two foreign insurance companies as associate members (American Home Assurance Company and Hartford Fire Insurance Company).

The Korean non-life insurance companies are underwriting 56 classes of non-life insurance, and the premium income written by them reached almost Won 300 billion in 1979. The average annual growth rate during the past 10 years has been 38.6 percent.

In view of the continuing growth of the Korean economy, our insurance industry is expected to rank at around 20th among the world's largest insurance countries in the near future.

Korea Offers A Wealth of Opportunities

Jai Suk Chung

Minister of Commerce and Industry
Republic of Korea

The total volume of two-way trade between Korea and the United States in 1979 was nearly \$10 billion, or more than one quarter of Korea's total world trade for the year. Korea is soon expected to surpass Italy and France in total volume of trade with the United States.

In the 1980s, Americans will enjoy even greater opportunities in the Korean market. As Korea develops heavy industries and her people become more affluent, there will be an increasing demand for a wide range of high technology products, American capital goods and American agricultural products.



Furthermore, with its large, highly-trained, and well-disciplined labor force, Korea will present American manufacturers with profitable opportunities for producing a wide variety of products in Korea. Opportunities are particularly great in such fields as electrical and electronic equipment, semiconductors, computers, communication equipment, machinery, precision instruments, internal combustion engines, and medical equipment. Cooperative efforts in energy development, including nuclear and solar energy, gasification of coal, and tidal power, are further examples of opportunities in Korea.

Korea is committed to a broad import liberalization policy. We are currently minimizing restrictions on foreign investment and the government is studying ways of facilitating the participation of foreign investors in the domestic capital market.

Finally, any potential investors in Korea should take note of the fact that Korea offers a geographical advantage in terms of access to the vast Asian-Pacific market. This advantage has been greatly enhanced by the recent improvement in the relationship between the U.S. and China.

Exports

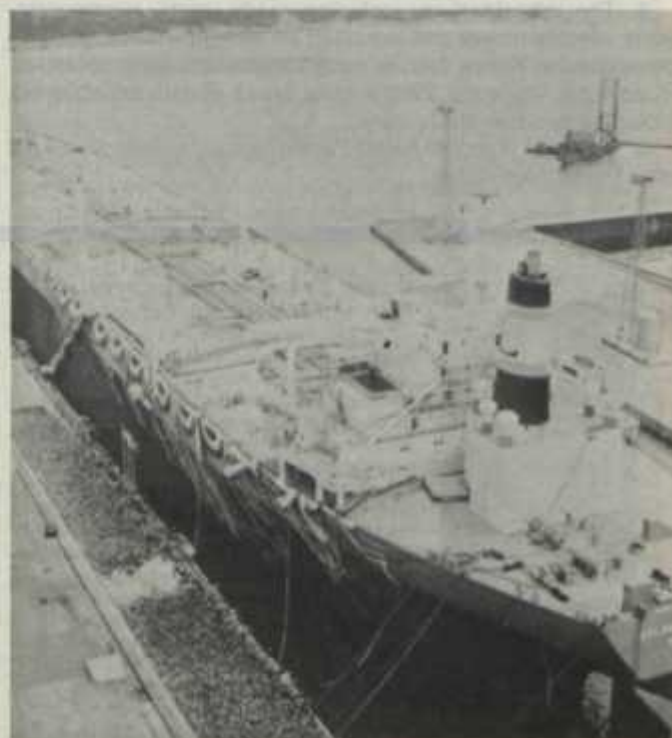
What is Korea's current export pattern? Are any significant changes anticipated during the 1980s?

In the past, light industrial products such as textile goods, footwear, and plywood predominated. Since the early 1970s, however, the government has been pursuing a policy of diversifying export markets, while energetically promoting the development of heavy and chemical industries. As a result, the share of heavy industrial goods in Korea's total manufactured exports rose from 23.5 percent in 1972 to 39.3 percent in 1979.

The shift toward exports embodying high technology will continue in the 1980s. In addition to the heavy industrial products already mentioned, Korea has already begun exporting textile machinery, metal working machinery, engines, boilers, and turbines for power generation to developing nations. It is expected that by the mid-1980s various capital goods will be exported to the U.S. market as well. In addition, because of her relative abundance of labor, Korea will almost certainly maintain her position as a major world supplier of light industrial products in the 1980s.

What capital goods are being exported to the U.S. market?

While Korea has been industrializing rapidly under four consecutive five-year economic development plans since the early 1960s, she has yet to reach the point where she can export capital goods to the United States and other developed nations in significant quantities. Korea is, however, vigorously pursuing a policy of enlarging the scale of her capital goods industry,



and at the same time raising the technological level. As a result, it is expected that Korea will be capable of exporting various kinds of capital goods to the U.S. market by the mid-1980s.

(continued on page 14K)

Exports

What are some of the non-traditional Korean exports currently available to U.S. consumers?

The distinction between traditional and nontraditional exports is not clear. Our relatively new exports to the U.S. include color television sets, radios, tape recorders and other electronic consumer items, iron and steel products, machinery, and shipping containers.

Which foreign industries may be able to use Korea profitably as an export base?

Given Korea's abundance of high quality labor and given the nation's aspiration to rapidly develop skill and technology intensive industries, the most promising industries are electronics, electronic components, machinery and machine parts, automotive parts, fine chemicals, cement, ceramics, building materials, and some defense industries.

What are the main advantages in establishing export-oriented manufacturing industries in Korea?

The most important advantages are:

1. Well-trained technical manpower and skilled labor are abundantly available, while Korea's wage levels are still much lower than in the more developed countries.
2. Tax privileges and administrative supports are offered to foreign investors.
3. Foreign investors are guaranteed the right to repatriate all legally earned profits and dividends, as well as the capital they invest in Korea.
4. The infrastructure, including roads, ports, communications, electric power and industrial water supply, is much more developed in Korea than in most other developing countries. In addition, there are 22 industrial areas already established, including two free-trade zones.
5. The vast potential Asian-Pacific region markets are easily accessible from Korea.



Are there special investment regulations applicable to export-oriented producers or manufacturers?

There are very few, and the government is currently working on plans to simplify application procedures and also to formulate a more liberal set of requirements for joint-equity participation with Korean firms. Even under the present policy, those foreign firms making investments which contribute significantly to technical progress or greater export potential are allowed 100 percent ownership.

In addition, high priority is given to export-oriented foreign investment projects through the provision of tax privileges, allocation of plant sites in industrial areas, and the securing of utilities and communication facilities. Administrative help on a priority basis is also extended to foreign-invested firms in the granting of export or import licenses, the operation of the customs duty rebate system, and the clearing of imported capital goods through customs houses.

What are Korea's imports from North America that could feasibly be produced in Korea and re-exported to the Asia/Pacific and world markets?

Principally those goods which have a high-skilled labor content, such as electrical and electronic equipment, machinery,



Harlan C. Grosz
Representative Director
Purina Korea, Inc.

Korean Strengths: Productivity, Pride in Achievement, Security

Our joint venture formed 14 years ago between Ralston Purina Co. and Shim Sang Joon, Chairman of Korea Marine Industry Development Corporation, has experienced 25 percent annual growth in the livestock feed industry.

Livestock production and consequently formula feed production are vital in producing least-cost protein food to support the diet of the mass populace working diligently with the various export industries so important to the strength of the Korean economy.

ROK liberalization plans in the economic sectors provide the climate for continued economic growth of 10 percent annually.

Introduction of new and advanced technology and investment is welcomed by the ROK. Productivity, pride in achievement and sense of security are strengths of Korea's economic and social structure.

As an indication of our firm's confidence in our industry, and Korea's overall economy, we are currently constructing a multimillion dollar feed production plant, our third Korean facility.



S.C. Song
President
Samsung Co., Ltd

Samsung Eyes Continued Growth

It gives me great pleasure to introduce the Samsung Group, headed by Samsung Co., Ltd. Composed of 26 sister firms with 34 branch offices located throughout the world, Samsung is the largest and oldest general trading company in Korea.

We engage in a wide range of business fields such as importing and exporting, construction and development, international financing, management consultation, and much more. Samsung is striving to bring its services to you in an attempt to improve the quality of life around the world.

With a sincere business philosophy, we are certain of continued growth in spite of the present world conditions and we invite you to join with us in making a brighter future for generations to come.



Overviews of Korea

Exports

precision instruments, internal combustion engines, semiconductors, computers, communications equipment, and medical equipment.

U.S. buyers have brought back rave reviews about Seoul's new KOEX. Why is this so?

This is no doubt due to the fact that KOEX's main exhibition hall, which contains up-to-date communications facilities capable of reaching anywhere in the world, provides a central and convenient location where foreign buyers can inspect Korea's major export products.

In addition, a number of specialized trade shows are held there throughout the year, during which visiting foreign buyers are able to conduct on-the-spot business discussions with their Korean counterparts.

The Republic of Korea has about 40 million inhabitants spread over a land area of some 38,000 square miles, surrounded by waters on all sides, except for the armistice line to the north. What opportunities does this concentrated consumer market afford export-minded U.S. investors?

By the 1990s Korea's per capita GNP will have reached the lower level of the present developed countries. The Korean people are quickly developing cosmopolitan tastes, particularly in food, clothing, and recreation, and as they become more affluent there will be an increasing demand for consumer goods, especially agricultural products, from the U.S.

Furthermore, as Korea develops her heavy industries there will be an increasing demand for a wide range of American capital goods and high technology products. ■

ACKNOWLEDGEMENTS

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INQUIRIES

Correspondence addressed to participants must be sent to the New York office of Sullivan Sarria at 310 Madison Avenue, New York, New York 10017, for immediate forwarding to correct addresses in Korea. Forwarding envelopes marked "confidential" will be respected.

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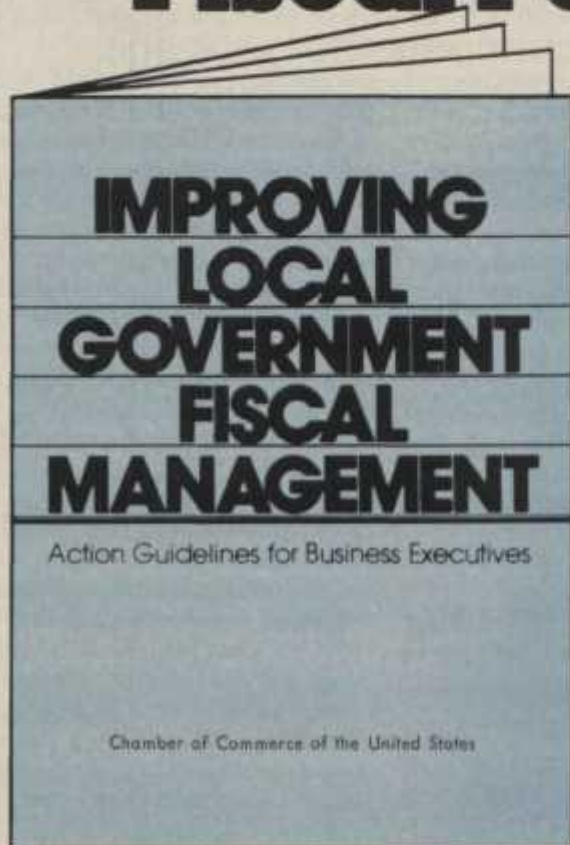
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The Wedding Business: Ring in Profits

By Mary Tuthill

DESPITE the ups and downs of the economy, seismic changes in the way men and women live together, and a soaring divorce rate, weddings are good business. Some 2.3 million Americans were married last year (70 percent for the first time), and each wedding spelled out profits for gown-makers, caterers, photographers, printers, and retailers who depend on this most ancient of rites for all or part of their business.

Weddings are indeed big business. "It's a multibillion dollar industry," says William P. Gelinas, executive sec-

retary of the American Association of Professional Bridal Consultants in West Hartford, Conn. In fact, in 1979 weddings accounted for a total of \$12.5 billion in retail sales—including \$2.6 billion in furniture, \$839 million in engagement rings, \$765 million in major appliances, \$568 million in tableware, \$422 million in gowns and veils, \$127 million in wedding rings, and \$83 million in luggage.

The wedding business usually starts with an engagement ring, and diamonds are still the favorite stones by a huge margin. Some 96 percent of the

engagement rings received by first-time brides contain a diamond design of some kind. Wedding rings, too, may include diamonds, but the plain gold band outsells all others and is the most frequent choice for double-ring ceremonies.

Then, there are the gifts for wedding attendants. A recent trade survey showed that 70 percent of brides chose some piece of jewelry, spending about \$27 to \$38 per gift; grooms spent between \$30 and \$39 for each gift. The average couple bought four gifts each.

Most couples are engaged for six to 18 months. During this period they must make many decisions, most involving substantial sums of money. At this stage, many brides call in a bridal consultant to help make what they hope will be once-in-a-lifetime decisions. And there are a growing number of people waiting to help them. The American Association of Professional Bridal Consultants has about 50,000 members and, says Mr. Gelinas, "there are a lot out there who are not members." Some are connected with stores and caterers, while others operate independently.

Leaving home

These consultants, says Mr. Gelinas, have perhaps more influence over the couple and its purchases than anyone else, for several reasons. Many brides live away from home, and the family cannot help with the planning. Recent changes in fashion and etiquette send many young women in search of an expert. "We become confidants and when family members differ in how things should be done," says Mr. Gelinas, "we often become mediators."

Bridal consultants have a great influence over purchases beyond the wedding itself. "During the planning stages of the wedding the couple has come to rely on the consultant to help them make decisions, so as the day gets closer and they begin to think of home furnishings and appliances, they again turn to the consultant for advice," Mr. Gelinas adds.

Some of the first decisions a consul-

NATION'S BUSINESS • JUNE 1980

Traditional weddings, with white or ivory formal gowns, are back in style. The average bride spends between \$250 and \$300 for her gown and veil.



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For newlyweds, cutting the cake is the highlight of their reception.

tant can help with the announcements and invitations. Today engraved invitations have lost ground to thermography, or raised printing. While less than five percent of engraving business sales is connected with weddings, 80 percent of a social thermographer's may come from wedding business, including napkins, matchbooks and other related items, as well as announcements and invitations.

The type and number of invitations and announcements usually depend to some extent on the size and degree of formality of the wedding. A *Modern Bride* study shows that about three fourths of first-time brides have formal weddings with about three attendants each for the bride and groom, while about 80 percent of remarriages are informal with only one attendant. Second weddings have gained such acceptance that the bride's family may again help her select a dress. This acceptance has also changed women's attitudes about what is proper attire for a second marriage.

"White and ivory are now considered okay for second weddings," says Lee Fine, vice president of Bridal Couture, Inc., a major New York gown-maker. Many stores report that brides are selecting gowns that are just as elegant as the ones they wore at their first marriage. Some are selecting tra-

ditional gowns because they didn't wear one the first time. The average bride spends between \$250 and \$300 for her gown and veil.

While brides are turning to more traditional dresses for themselves, the trend for attendants' dresses is toward high fashion. Monica Hickey, bridal buyer for Henri Bendel in New York, says the change has taken place during the past five years. "There is a definite trend toward more sophisticated dresses for the wedding party," she says. "For the most part, they are dresses that can be worn again for evening wear." Some can even be turned into street length dresses by removing one skirt layer.

Saturdays cost more

One tradition not making a comeback is a personal trousseau for the bride. "They're not coming in and buying all the clothes they'll need for the first year anymore," says a longtime saleswoman at Garfinkel's in Washington, D.C. The average bride spends only about \$162 on other clothing items before her wedding.

Once the attire for the wedding party has been chosen, still larger costs loom ahead in planning a reception. "More than 90 percent of first-marriage brides have a reception with an average of 151 guests for a cost of \$1,368," says Mrs. Jacqueline Bondy, director of fashion advertising for *Modern Bride*. "And the reception is more likely to be held in the evening."

But rising costs have brought some changes to the usual pattern. More weddings are being held on Thursday, Friday and Sunday because it is much less expensive to rent space on those days, but most weddings—73 percent—still take place in a church or temple.

For evening weddings, in particular, most brides like to have some kind of music at the reception. This can range from a guitar or accordion player to an orchestra. Five or six pieces is a pretty good average; for the average three-hour reception such a group would cost \$500 to \$600.

Music or not, most couples want pictures of the happy occasion. A few trust the big moment to a friend, but most prefer the security of hiring a professional. A survey by the American Association of Bridal Consultants says the average bride spends almost \$210 on wedding pictures. The Professional Photographers of America says 60,000 photographers are engaged in candid wedding photography.

Just as indispensable are flowers—

for the bride and her attendants, for the church or hall, and for the reception. *Floral Report*, a florists' publication, estimates that \$250 million of floral business is wedding-related, or \$8,800 annually for the average shop.

Before the wedding day, most couples make some decision about where and how they will live. The biggest cash outlay comes when the young couple, whether renting an apartment or buying a house, is faced with empty rooms to fill. While older couples may bring some furnishings with them, the bridal market is the primary source of original sales for a wide array of home furnishings products.

"It's a recession-proof market," says Mrs. Bondy of *Modern Bride*. "While everyone else is tightening the belt, the bride has nothing, so she's a guaranteed customer." With the increase in the number of marriages every year, today's bridal market continues to provide a source of new customers. Established households already have a full complement of the products that go into a home, so sales in this group are difficult if the customer has been satisfied with the brand of a previously owned item.

Passing up the Poconos

Newlyweds seldom have brand or retail loyalties when they enter the marketplace, so the new marriage often not only presents an original sale, but the opportunity to acquire a loyal customer for the future. And while previous generations were taught to start off married life on a modest scale and to save for years in between major purchases, many newlyweds today expect to begin their new life with everything they think necessary.

Despite all the other costs involved in getting married, most couples try to manage some sort of honeymoon. A Washington, D.C., bride, a young lawyer who will marry another lawyer, says they plan to honeymoon in the Caribbean. "We have budgeted \$2,000 for the trip," she says, "and I hope we can stay within that amount."

Mr. Gelinas of the Bridal Consultants' Association says that the trend in honeymoon spots is changing. More newlyweds are passing up the Poconos in favor of the Caribbean, Florida beaches, or theme parks. Honeymoons are even more popular now than they have been in recent years. With rising costs, he says, "More brides are thinking, 'I'd better get it now. By next year we'll probably have a mortgage and I'll be pregnant.'"

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The Engineer Who Made Martin Marietta a Mover In Space—and Cement

By Tony Velocci

IN 1940, J. Donald Rauth's first assignment with the company that later became Martin Marietta Corp. involved a bushel of shucked corn and a drill press. "A desk job was the last thing I wanted, so I voiced a preference for the experimental end of the business," he recalls.

His first day at work he reported to the company's structural dynamics laboratory in Baltimore, Md. "You'll have your own room for this project," his supervisor told him. "The job is for Mr. Martin, and it's hot, so for God's sake don't screw it up."

"Okay," replied young Rauth. His task was to bore a hole part way into each kernel of corn in the bushel basket. Seven days later, he finished the job. "Am I done?" asked Mr. Rauth, who had just graduated as a mechanical engineer from Philadelphia's Drexel University.

"No, not quite," replied his supervisor. "Next, I want you to take this powder, add a little water, stir it to a paste, and fill every kernel. Scrape off the excess then set each one over there."

Drugged corn

Several weeks later, Mr. Rauth approached his supervisor. "Can I ask what this is for?"

"Well, Mr. Martin is interested in Ducks Unlimited, the big duck farm on Maryland's Eastern Shore," the supervisor said. "That's a drug you put in the corn. After the ducks eat it, they'll pass out and be easier to band with identification tags."

Mr. Rauth was assigned to more substantive engineering projects and forgot about the corn kernel project until one day he ran across his former supervisor who explained the denoue-

ment. "The special kernels were mixed with regular corn and spread across a field," he said. "Ducks, geese, and chickens came in by the thousands. The ducks and geese didn't eat one bit of the drugged corn, but the chickens did. You've never seen so damn many chickens lying in a field with their legs sticking straight up in the air."

In the 37 years following that memorable assignment, Mr. Rauth's engineering know-how and managerial skills were rewarded with a series of promotions. After gaining experience as a structural engineer performing static tests, he was put in charge of engineering for systems development, including the Viking high-altitude program and various tactical missile projects for the U. S. Navy.

Gradually, his interests shifted from engineering to management. He reorganized and upgraded the efficiency of the company's materials and procurement division, and in 1958, he became general manager of the company's nuclear division. Under his direction, the division developed the first transportable nuclear power plant, which supplied power to the U. S. scientific base in Antarctica for many years. Next, Mr. Rauth took over the company's sprawling, 20,000-employee complex in Denver that produced the Titan I and II ICBM missiles. After a stint as president of the aluminum company in Los Angeles, Mr. Rauth became president and chief operating officer in 1972 and chairman five years later.

While the industrial corporation that he oversees today is probably best known for building the Mars Viking Lander and the Titan family of ICBMs and space launchers, Martin Marietta is a diversified conglomerate covering

cement, construction aggregates, chemicals, and aluminum as well as aerospace. Total sales in 1979 topped \$2 billion (aerospace represented 41 percent).

Like most major conglomerates, Martin Marietta resulted from merger and evolution. In 1961, the Glenn L. Martin Co., famous for designing and building World War II airplanes such as the B-26, merged with American Marietta Co. "From then on it was a weeding-out process," says Mr. Rauth.

Softening cycle

In 1973, Martin Marietta reacted to the Arab oil embargo by converting its plants to a dual energy system. That modernization effort continues today; \$400 million has been authorized this year for projects such as replacing a cement plant in Iowa with a new facility that will not only boost annual production by 300,000 tons a year, but also will produce double energy efficiency.

"These programs pay for themselves in rather short order," says Mr. Rauth. And the softening economic cycle is all the more reason to concentrate on improving efficiency, he says. "I can't be concerned about whether we are entering a recession or how long it might last. We're building plants with 50-year lifetimes, and we may see five different recessions come and go during that period. I'm betting on the national economy in the long term."

Mr. Rauth has "the ability to work on things that have a long fuse," according to a close friend. For example, while supervising the Titan I and II ICBM programs 20 years ago, Mr. Rauth recognized that the military-oriented technology eventually would be applicable to commercial space ven-

tures. He set out to acquire business from the National Aeronautics and Space Administration.

The process was slow and tedious, but today, Martin Marietta is one of NASA's most important contractors. In the space shuttle program, the company is responsible for the huge external fuel tank, experiments that the shuttle will carry, the recovery system for the solid fuel rockets, and ground control facilities.

Adventurous spirit

Even as a boy, Don Rauth was fascinated by airplanes. "In 1929, I told my parents I wanted an airplane ride more than anything else," he recalls. "They bought me a plane ticket to visit my grandparents in Baltimore." He was only 11 years old, and his adventurous spirit was considered so unusual at the time that a major Baltimore newspaper published a story about his trip from Philadelphia.

Throughout college, Mr. Rauth made periodic trips between Philadelphia and Baltimore. The train passed by the Glenn L. Martin Co. bomber plant. "I watched those babies take off every time I could," says Mr. Rauth. "I was captivated by the romance of flying, so naturally I wanted to work there, at least for a year or two. Besides, the war was coming, and I wanted to do my part."

Over the years, Mr. Rauth has developed what he calls a cooperative management style. "I don't think for a moment that I have to come up with all the ideas around here," he says. "I'll take them from whomever and

wherever I can get them." That is apt to be almost anywhere within the corporate headquarters. The three-story, ultramodern facility in Bethesda, Md., has a relaxing ambience that encourages mingling and communication among the employees and reflects Mr. Rauth's own low-key, disarming nature.

His management style means knowing how to establish priorities. And that requires being able to get to the core of issues and being able to say no. "Not just to demands on your personal time, but to the myriad ideas and opportunities that cross your path," says Mr. Rauth. "Two other factors are timing and the ability to recognize how small but significant decisions can work together."

"There aren't many showstoppers, and few executives sit around making monumental decisions. I tell my people to bring me Acts II and III, including the ending, not just Act I."

Mr. Rauth believes that the key to motivating people is making them understand. "If you want to motivate people, give them the background—tell them why a job is important, where it fits into the overall scheme of things, and so forth," he says.

"About a century ago, a man named Samuel Plimsoll succeeded in getting a law passed in England requiring ship owners to paint a line on the sides of their ships," he explains. "When the weight of the cargo brought a ship down to where the mark touched the water, loading had to stop; that was the safe cargo limit."

"People have their own Plimsoll

lines, too. I've drawn mine." It includes a refusal to discuss business at home and a positive disinterest in gardening. "That's all subcontracted out. My idea of yard work is being on a golf course."

Mr. Rauth and his wife, Kay, whom he met while in college, live in Kenwood, Md., a short distance from Martin Marietta's headquarters. "In the spring, Kenwood rivals Washington's Tidal Basin for cherry blossoms," he says. In an interview punctuated with anecdotes and iced tea, Mr. Rauth ranged over topics as diverse as gin rummy, basic research, and the War Between the States.

Why did you recommend that Martin Marietta get out of the nuclear business?

At the time, I did not believe our market share—it was only about 15 percent—would have allowed us to compete for very long. Other big companies like Westinghouse were investing more money to support their expanding markets. Consequently, our margin of error would have been almost nil; theirs was considerable. Looking back, I think we made the right decision.

Weren't you an early proponent of adapting nuclear technology to space research?

It would be pretty hard for me personally to claim any single idea. Everybody here has an oar in the water. I believed early on that deep space exploration would probably require nuclear power. I am now convinced that our need for nuclear energy is greater here on earth than in space. Nuclear energy is maligned. Few of its critics provide realistic alternatives, and the press's treatment of nuclear power has been unfair.

You read of nuclear plants that automatically shut down until people are able to correct a malfunction. That is precisely what these plants were designed to do.

Is the fall off in research and development by U. S. industry significant?

Unfortunately, it is. As a percentage of the nation's total wealth, we are not putting enough back into basic research to come up with new ideas. As a country, we exploit technology and the inventions of others. Ongoing research and development helps to balance that equation. I'm concerned with applying the fruits of basic research. From where I sit, our real challenge is to im-



While his name appears on several patents, J. Donald Rauth, chairman and chief executive officer, points out that everyone at Martin Marietta Corp. "has an oar in the water." One of his top carsmen: President Thomas G. Pownall.



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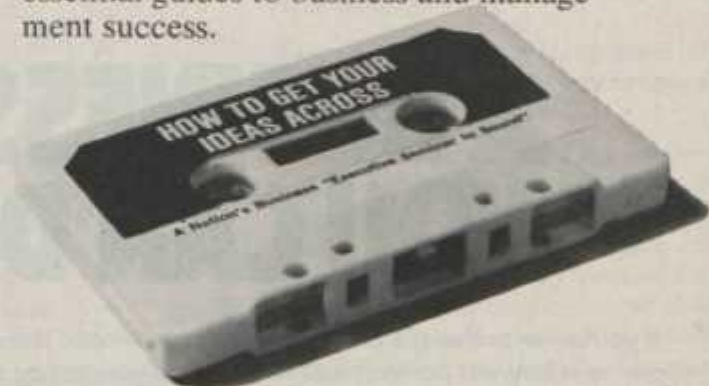
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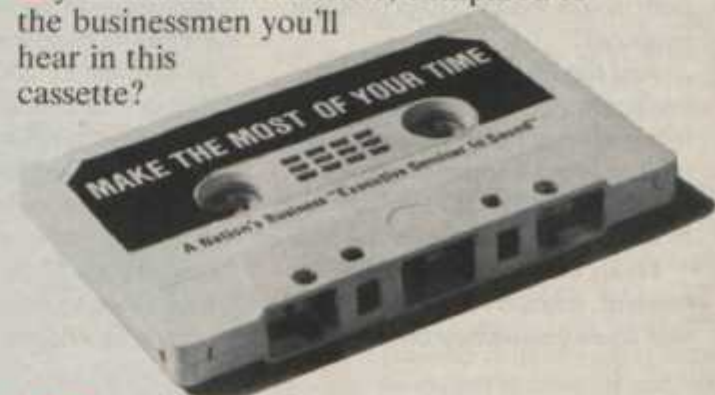
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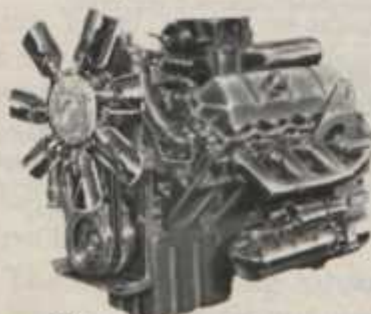
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What work is Martin Marietta doing in this area?

We have a sizable investment in research and development, and I expect it to increase. For example, we once developed a strain of algae that could have been a source of food for space crews. One strain we developed reproduced eight times faster than any known natural algae. One day we made soup from the stuff and ate it. After that, nobody here volunteered to be an astronaut.

What patents did you develop earlier in your career?

They dealt with drag brakes and other systems for controlling an unmanned space vehicle. However, my name is not the only one on the patents. They were joint ventures. It's tough to say that any one person invented something. It just doesn't happen that way in this company.

As a youngster did you tinker with things a lot?

I did my share. I had some mechanical inclination. My cousin and I used to tinker with a Model T Ford we kept in a back lot. It had no license tags and we were under age, so all we could do was drive it around in a field. We bought gasoline by the quart because that's all we could afford. Wherever that old heap stopped was where it sat until we could afford to buy another quart of gas.

A friend told me that you were the most aggravating guy to play gin rummy with that he had ever known. What do you say about that?

That's only because he was losing.

Besides golf and gin rummy, what else do you enjoy in your spare time?

Oh, a lot of things. Fishing—rainbow trout, ocean fish, game fish. Every year or so I go on an Alaskan bear hunting expedition. I also enjoy poker and games of chance. I like to play the odds because of the math that enters into it. I'm also trying to do more reading. Right now I'm deep into Manchester's *MacArthur*. I especially like anything involving the War Between the States.

Any particular reason?

My daughter, Kathryn, traced the maternal side of my family back to the mid-1700s. The tidbits she uncovered,

especially about distant relatives during the 1860s, were fascinating. For example, during the Civil War, a long-lost cousin who worked as a reporter in Baltimore was jailed in Boston because he was accused of being a Southern sympathizer. And we had a real kook in the family. He was strolling through some woods where the Union Army was holding target practice. He was ordered out, but he wound up getting accidentally shot anyway. Another distant relative owned a farm that was used by both sides to treat injured soldiers. One day, it would be occupied by the North, the next day by the South, back and forth.

In the United States today, what kind of action is needed to turn around the continuing decline in productivity?

Aside from the need to improve the tax structure, we've got to involve the total work force. No one group has all the answers, whether it's management or organized labor. They've all got good ideas and should be encouraged to participate in solving problems such as declining productivity. But first they must be able to identify with the problem. They must feel that their well-being actually depends upon helping to improve the situation.

Martin Marietta was among the first to pledge its compliance with the voluntary wage and price guidelines. Do you agree with the concept, or were you just cooperating?

Both, I think. Something had to be done. We live in a very complex economy, and there is no one answer to the kinds of problems we are experiencing. Basically, there's nothing wrong with wage and price controls. It's the after-effect: The whole system becomes unstable again.

Are the problems so insidious that it doesn't matter who the leaders are?

The blame has to be spread around. The Arab oil embargo happened seven years ago, and this country still doesn't have a clear-cut energy program. We have had wheel-spinning on a massive scale. We haven't owned up to our dependence on foreign crude, which is one major source of our problems. Three administrations have been in office, and between Congress and the executive branch we have been unable to meet this problem. That's absolutely inexcusable.

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Disarming in his demeanor, Mr. Rauth believes that one of business's biggest problems is its frequent inability to speak with one voice, both to the federal government and to state officials like Washington Gov. Dixie Lee Ray.

One of its biggest problems is that often it is unable to speak as one voice. There is hardly any ground on which all segments of business agree. Somebody always can't quite accept that premise or can't buy this thesis. So each business has its own special interest to push.

In view of the President's pledge to increase defense spending, can American industry shift gears quickly enough to produce military hardware in mass?

Yes, sir. Aircraft are being built on only one shift a day. Additional shifts could be added, using the same tooling. We are not building anything at maximum rate, but we could very quickly. The aerospace industry is far from short of manufacturing facilities. For example, we have a plant in Denver that was engineered to build 12 to 14 Titan ICBMs a month. We now turn out about one and a half Titan launch vehicles every 30 days. I could up the

rate with no problem. Inventing something is different. That takes time. But the industry can respond pretty fast without taxing its basic capabilities.

U. S. space exploration has been steadily winding down since the last Apollo flight. Is that a mistake? Should the money be put into social and welfare programs here on earth?

The space program is a kind of social program. All of those dollars we spent to go to the moon helped stimulate our economy. Jobs were created for thousands of people, and the transfer of technology to practical everyday living was immense. While the space program has had its day for the time being, space continues to offer extraordinary opportunities. We'll never run out of challenges in this country. They merely take different shapes and sizes. □



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Seven Ways To Land a Loan

By Guy C. Roberts

IT IS NO SECRET that the small but growing business is hard-pressed to find new capital these days. What may not be as well-known is that many small firms are turning to private, long-term loans from institutional lenders such as insurance companies.

For the small business operator looking for funds, here are seven ways to impress an institutional lender:

1. Retaining a company's share of a market is often less exciting than developing a new market, but it carries a lot more weight with an institutional lender. Too often, management is tempted to tap cash flow from an established market to fund a new venture. For giant corporations, this is laudable; they have large enough resources to make long-term investments. But smaller companies cannot afford to spend scarce assets developing unrelated markets. The first priority is to maintain a share of the market.

2. Many firms have a competitive edge in a proprietary process, a unique product, a patented technique, or a system of organization that is superior to that of their competitors. A company can also outstrip its competition through better marketing and customer service.

Unfortunately, many companies understate these strengths. Instead of building on their achievements, they try to glamorize their future by stressing plans for diversification, usually into fields that are foreign to them.

Much of this stems from the common objective of all businesses to expand. The moral: Stick to what you know best and make the most of it.

3. There was a time when many entrepreneurs could manage by the seat of their pants. Their intuition and insight were often flawless. But no longer. Today, a manager must make decisions based on hard, current facts.

Similarly, companies should analyze

profitability by product line. Too many organizations support low-profit items too long. Sometimes this reflects lack of good cost data, but often it is simply a reluctance to weed out products that were big revenue producers years ago under different market conditions.

4. The structure of a company's financing says a lot about its ability to weather the strains inherent in small business. Too much short-term debt is an obvious problem. So is too much reliance on accounts payable. Stretching out debt is a top priority, along with financing growth from retained earnings and depreciation as much as possible.

5. Probably no other factor in evaluating a company ranks as high as management quality. Without strong, capable leadership, most small organizations will eventually founder, regardless of the superiority of their operations.

Performance, of course, is the ultimate test of management quality, and return on invested capital is a good indicator. While industries will vary, a return of eight percent or more is the benchmark.

6. Although it is axiomatic that a successful operation will appear neat and orderly, some of the most streamlined facilities operate at little or no profit; often, more ordinary, unimpressive looking businesses are achieving maximum returns. But lenders are not engineers or production experts. They are not equipped to judge such areas as plant efficiency and output. As a result, they rely heavily on key financial and operating measurements. Therefore, company statements should be audited, preferably by one of the Big Eight firms.

7. Companies should prepare a formal financial plan, with short and long-term projections on cash flow and capital sources and uses, and maintain ongoing good financial relations with creditors. That means letting the creditors know the problems as well as the successes.

MR. ROBERTS is vice president, investment division, of Massachusetts Mutual Life Insurance Co., Boston.



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Should Social Security Benefits Be Taxed?

INCOME from private pensions is taxed, notes the Social Security Advisory Council, so why not treat social security income the same way? Under the rules governing pensions, about 83 percent of an employee's social security benefit would be subject to taxation. However, the council recommends taxing only one half of the benefits because of a suspicion that trying for more would be politically unsupportable. Social security payments are now tax exempt by a ruling of the Internal Revenue Service, not by statute.

Opponents of taxing social security point out that the employee's half of the social security tax comes from gross income; therefore, taxing all benefits would amount to double taxation. (Employers may deduct the other half of the social security tax.)

Proponents of the idea—including

The New York Times—see it as a way to gain some control over the escalating entitlements section of the federal budget, without cutting the income of those entirely dependent on social security. The council says that a couple's sole income from social security would have to exceed \$14,800 before any tax would be due. Additional tax would be paid on 10.6 million of the 24.2 million benefit checks. According to the Congressional Budget Office, taxing half the benefits would produce an extra \$5 billion in revenue next year.

Some opponents of the proposal, such as the AFL-CIO, resist any reduction in transfer payments. Other opponents, such as the U.S. Chamber of Commerce, say the economy needs tax cuts, not additional tax increases. The Chamber also favors extending social security coverage to government em-

ployees and members of Congress—who do not now support the system—before taxing further those who do.

The system already gives a higher proportionate return to low-income people, observes *The Wall Street Journal*. It warns that "if the burdens of stunted economic growth are steadily shifted to our nation's strong producers, they will at some point cease to be strong producers."

Others point out that social security payments are increased to keep up with inflation, while private sector income has been lagging three or four percentage points behind inflation. Why, they ask, should nonworking people receive better protection against inflation than those working?

What do you think? Should social security recipients be liable for tax on half of their benefits? □

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Should social security benefits be taxed?

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Executives Forecast Continuing Inflation

HIGH INFLATION is eroding business confidence not only in the United States but also in countries around the world where subsidiaries of U. S. firms operate. Executives in charge of subsidiaries in foreign countries anticipate continuing inflation, and are less optimistic about the outlook for sales and profits than just one year ago.

These findings are from the semiannual International Business Attitudes Survey conducted in February and March by the U. S. Chamber Survey Center. Almost 1,500 top executives responded to the survey, representing subsidiaries in nearly 90 countries.

Despite relatively low inflation rates in some countries, 60 percent of business leaders surveyed expect higher consumer prices during the next year compared with 44 percent a year ago. Executives in the United States, in a separate, jointly conducted Chamber-Gallup survey, predicted a 74 percent chance of double-digit inflation during the next 12 months, up from a 52 percent chance a year earlier.

At the same time, there has been a continuing slippage in the proportion who think their host country government will do a good job in their economic policies to fight inflation—dropping from 37 percent a year ago to 33 percent last summer, and then to 27 percent in the current survey. The decline was most pronounced in Canada and Mexico. In the United States, by contrast, only one percent expects the government to do a good job.

Business leaders in charge of U. S. subsidiaries abroad are less concerned about a recession in their host countries. They assign a 37 percent probability of recession during the next 12 months, and a 36 percent probability for the next 24 months, just about the same as six months ago. In the winter quarter Chamber-Gallup Business Confidence Survey, much higher probabilities of 69 percent and 73 percent respectively were assigned to the chances of recession here.

Confidence in host government eco-

nomics policies to fight unemployment has weakened also. The proportion who expect a good job declined from 24 percent to 19 percent during the past six months. A majority of 57 percent still expects only a fair job, while 18 percent expect a poor job.

Forty-four percent expect their host countries' 1980 economic output (gross domestic product), adjusted for inflation, to be greater than it was in 1979. Twenty-six percent expect it to be less; 26 percent think it will be the same.

Business executives of U. S. firms abroad are less optimistic about the prospects for increased sales and profits. Profit expectations fell, with 55 percent now expecting an increase in profits, after host country taxes, during the next 12 months. This is down from 58 percent last summer and 66 percent one year ago.

The high price of U. S. products was identified by 38 percent of the executives as an important factor that inhibits the importation of U. S. products into host countries. Twenty-seven percent said U. S. taxation of its citizens overseas is an important disincentive to the importation of U. S. products.

Here is how the regions reported:

Canada and Mexico

The proportion of business leaders who expect higher inflation during the next 12 months jumped to 78 percent from 50 percent last summer. Meanwhile, they see the threat of a recession as waning. These countries foresee little or no problem with the availability of fuels. The majority of respondents from these countries expect higher sales and higher profits.

Middle East

The proportion who expect higher inflation declined to 40 percent from 61 percent last summer and from 64 percent a year ago. Recession expectations remain about the same. Most business leaders view U. S. taxation of U. S. citizens overseas as an important factor inhibiting importation of U. S. prod-

ucts. Most are confident that they can increase sales and profits during the next 12 months.

Asia

The majority of business executives still expects higher inflation during the next 12 months and assigns a low risk of recession during the next 12 months. Sales and profits expectations remain high. Large proportions identified the high price of U. S. products and U. S. taxation of citizens overseas as important factors inhibiting importation of U. S. products.

Europe

Expectations of higher inflation and recession show no significant change from last summer. The majority expects higher inflation and assigns about a 40 percent probability to recession in the next 12 and 24 months. Most remain optimistic about prospects for higher economic output, higher sales, and higher profits.

Africa

Three out of five business leaders in this region still expect higher inflation during the next 12 months. Recession expectations showed a sharp decline. The majority still expects higher sales and higher profits after taxes. Fully half the respondents identified the high price of U. S. products as an inhibiting factor to import activity.

Central and South America

Expectations of higher inflation and recession remain low in these regions, including the Caribbean. Those who expect the government of their host country to do a good job at fighting inflation and unemployment outnumber those who expect a poor job by two to one. The majority expects higher economic output in 1980 compared with 1979, plus higher sales and higher profits. Many identified the high price of U. S. products as important disincentives to the importation of U. S. products. □

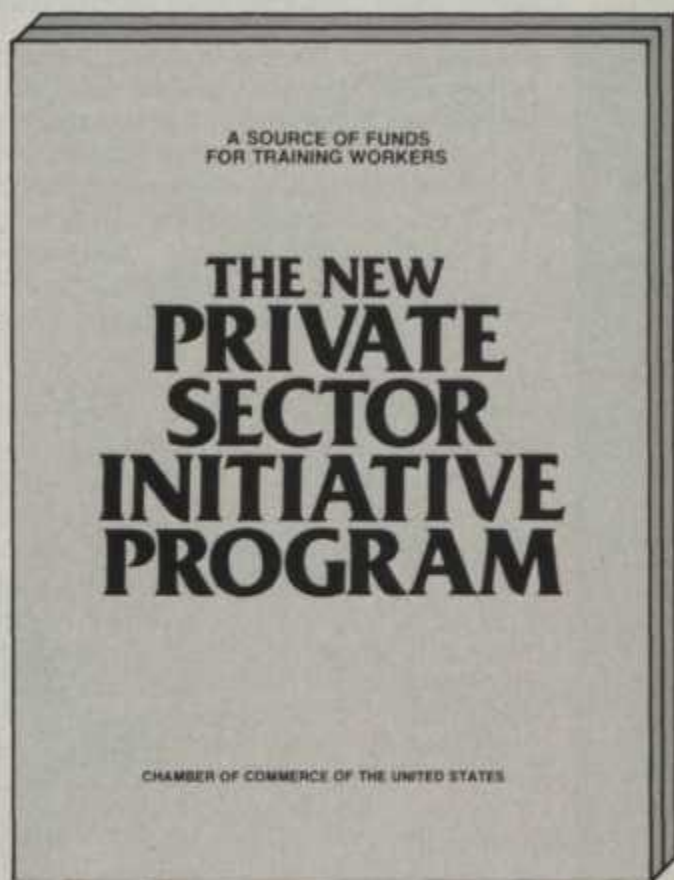
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AMATEUR MAGICIANS

What You See Is Why It's Magic

By John Costello

Business
Life-Style



DOROTHY STEWARD, it seems, can do almost anything. She can make coins vanish into—and flowers appear out of—thin air. She can levitate a lissome lady serenely above the floor. When she really gets into her act, she can tie a grown man up in a bag, stuff him into a trunk, and then have him escape while she takes his place—all in three seconds.

Despite these accomplishments, there's one thing Mrs. Steward, who once performed as a professional magician, absolutely will not do. She won't tell how she pulls off her tricks. No magician, of course, would ever give away the secrets of the trade. Compared to illusionists, finger-flippers, box-slippers, mentalists, and other sleight-of-hand artists, almost all other hobbyists are downright loquacious. Fishermen, for example, will tell you all about the big one that got away at the drop of a sinker.

Magicians, by contrast, come on like Calvin Coolidge. In fact, all that Mrs. Steward, a buyer for Unoco West, a division of Walt Disney Productions in Anaheim, Calif., will divulge about her hobby is: "You divert the audience's attention—with words or gestures—away from what you're really doing. People think they've kept their eyes on the object. But they haven't."

Sparked by Broadway and TV, magic has gone through something of a revival in the past few years. *The Magic Show*, which opened with soft-spoken, boyish illusionist Doug Henning in 1974, was the ninth longest-running Broadway musical. When Mr. Henning appeared in his first magic special for NBC in 1975, 55 million viewers tuned in. And membership in magic associations is near all-time highs; the International Brotherhood of Magicians claims 10,500 members, the Society of American Magicians, 5,250.

The magic business, however, remains relatively small. "There's tremendous public interest in magic," says Graham Putnam, president of Fun, Inc., a manufacturer of magic items in Chicago. "But that interest hasn't translated into retail sales." Mr. Putnam estimates that annual volume for the industry is about \$10 million.

There are as many different kinds of magicians as there are rabbits in hats.

"We divide them into different categories," says Ray Mangel, president of the International

Brotherhood of Magicians. "Like finger-flippers. They grab coins, cards, cigarettes out of the air, without using any other props. They're manipulators. Box-slippers take handkerchiefs out of boxes or rabbits out of hats.

"Mentalists are mind readers. They do ESP and that kind of stuff. And illusionists use big stage props or work with human beings or animals—sawing a lady in half, for example, or making an elephant vanish.

"I do close-ups, where you're sitting down at a table with a group around you, doing mostly sleight of hand."

Mr. Mangel is a chip off the old block. "My father knew a few simple card tricks, and he taught them to me. They were very elementary, self-working, we call them. There's no illusion involved. The trick just works for itself, if you know what to do."

How does one know what to do?

"I can't tell you," Mr. Mangel replies crisply.

But practice is part of the secret?

"Yes, it takes quite a bit of practice," he says, "especially when you're learning. Once you've mastered your routine, it takes less—just enough to keep your timing. Timing helps you make the audience look one way, while you're doing the dirty work somewhere else."

How could one do that?

"Well," he says, "that's the art of magic."

MAGICIANS are a close-knit fraternity. David A. Jarrett, a staff communications specialist with IBM's general products division in San Jose, Calif., likes the sociability shared by magicians. He says: "Whenever I'm in town, all I have to do is pick up a phone and call a member or two of a local magic group. Even total strangers will drop what they're doing, pick you up at your hotel, take you to their home, and sit around to talk magic with you."

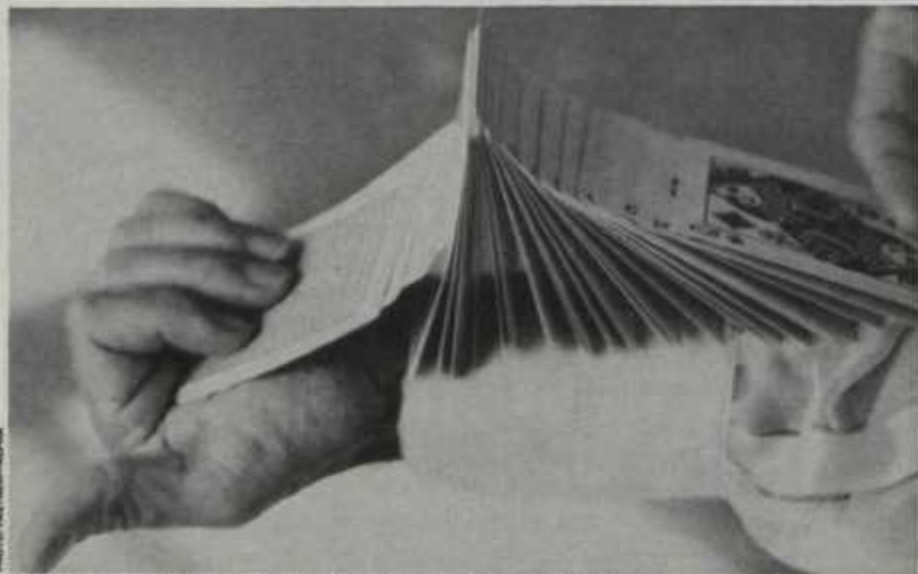
Why do magicians love to talk magic with each other? Perhaps because they can't—or won't—with anyone else.

Mr. Jarrett can do illusions.

"I've sawed ladies in half," says the past president of the Pacific Coast Association of Magicians. "Once, a news lady on a television show. Another time, a stewardess on a chartered plane we were



Magicians who find rabbits under silk handkerchiefs are known in the trade as "box-slippers"; they're as closemouthed about their tricks as a mum monkey.



"Finger-flippers" have highly developed dexterity and timing; these manipulators can make a pack of ordinary playing cards come alive.

taking to a magicians' convention in Hawaii." Isn't that hard to do? "No," he says, "the hard part is putting her back together."

When Royal and Carol Brin were wed, it seemed reasonable to honeymoon in Southern California. After all, the groom had spent his summers there when he was a kid. And that's where his married sister lived.

So the Los Angeles Assembly of the Society of American Magicians was meeting in Santa Monica. Perhaps it was a coincidence. But was it a coincidence that Royal Brin knew of the meeting? Or that he left his bride soon after they arrived to attend it?

Right then and there, the new Mrs. Brin made a decision. "If your husband will leave you on your honeymoon to go to a magic meeting, you had better get into the act," she said. And she did. Shortly after, Mrs. Brin became her husband's stage assistant. But it was seven years before she learned to perform magic herself.

"In 1954," she says, "my husband and I went to Chicago to attend a magic convention. When I walked into the lobby of the Sherman Hotel, a friend of mine met me and said that my husband and I were to appear on Don McNeill's Breakfast Club the following day. So another friend, Frances Marshall, taught me a simple little trick to perform. It's called the Linking Ropes.

"You take three lengths of rope, have a spectator tie each length tightly so it forms a loop or circle, then you make these ropes link and unlink without untying or tampering with the knots." How did it go over?

"Oh, the audience loved it," she says.

Stage presence and a gift of gab are a magician's greatest assets. "Is the hand quicker than the eye?" says magician Donald F. Oltz, a geologist with Texaco, Inc., in White Plains, N. Y.

"When you're doing magic, the eye isn't looking at the hand. Or at least, not at the right hand. The whole thing is misdirection and patter."

At Alma College, Alma, Mich., Mr. Oltz won a reputation as the campus wizard with a variation of the Glass Through the Table trick.

"It's a classic," he says, "which I adapted to the beer bottle. I'd wrap napkins around a bottle sitting on top of a thick wooden table. Then I'd smash my hand down on the bottle so it went through the table and came out below. I've done that any number of times—and never got caught at it.

"Of course," he adds, "it worked best after everyone had had a few beers." □

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Insurance Companies Zero In on Profits

By John Cosgrove

PHOTO: DESS GOLDBERG—STOMA



The chances of a corporate executive's being kidnapped in some parts of the world are believed to be greater than the chances of his dying in a plane crash. That macabre fact of life has prompted at least five major insurance firms to write kidnap and ransom coverage.

TO MOST AMERICANS, innovation means satellites whirling in space, oil rigs exploring the oceans, batteries of computer terminals producing answers to complex problems at the touch of a finger.

It would be a rare individual who placed insurance in that category of dazzling achievements, but it is insurers who make many "headline" accomplishments possible.

In fact, insurers have adapted rapidly to meet demand and have expanded their role in day-to-day affairs touching family and business life. In the past 30 years, both the property-casualty and the life underwriting organizations have eliminated many obsolete practices, added product lines, and

brought more economical programs to customers in the process.

Spurred by competition, insurers moved out of the relatively passive role of bearing risks to the positive function of contributing to their clients' well-being and profits. In the past three decades, innovations have included: packaging property-casualty coverage, broadening life insurance products and added benefits, developing risk management procedures and services, and harnessing the computer.

Packaging Property-Casualty

For almost two centuries businessmen were exasperated by the frustration built into the process of buying

insurance. Under the law, companies that sold protection for buildings and their contents against fire, flood, and similar risks could not cover the owners' liability for injuring others. The reverse was also true.

An array of complicated policies had to be negotiated—each with differing dates for premium payments and for expirations. Overlapping coverage was common. Four or five agents or brokers might be involved in playing out a costly drama of inefficiency.

Fortunately, by the 1950s new laws that insurers had been fighting for were adopted and their handcuffs clicked open. This freedom came none too soon for the traditional companies and for the independent agents who

NATION'S BUSINESS • JUNE 1980

12-MONTH CAR INSURANCE IS STILL AVAILABLE.

If you didn't shop around for your car insurance, you probably now have a 6-month auto policy. Many car-owners do. Maybe you hadn't noticed. Or didn't think it really mattered. Or thought there was no alternative.

It does matter.

Your 6-month policy has to be renewed every 6 months. Its rate can change on renewal. And while it may not go up every time, you know the way prices are going today.

There is an alternative.

GEICO still offers the 12-month policy... a full year's coverage at a low rate. With a choice of convenient payment plans to fit your budget. Up to 9 payments if you wish.

How can GEICO offer this 12-month rate protection and low rates too?

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GEICO insures good drivers. And good drivers are the best inflation-

fighters around. You have fewer accidents. You cost us less. So you are one reason we can afford to charge you less.

"Good" doesn't mean "perfect." Good drivers may occasionally have an accident. But that doesn't necessarily bar you from GEICO. And once you're a GEICO policyholder, an accident doesn't mean you won't be renewed. In fact, 98% of GEICO's policyholders are offered renewal each year.

Find out if you qualify for GEICO low-cost auto insurance. When you call, you'll talk directly to a GEICO staff insurance counselor, not a salesman. There's no pressure. And no extra sales expense to inflate the cost.

GEICO has been saving money for good drivers since 1936. Today, of the more than 1,000 stock companies that insure autos in the U.S., GEICO is the 5th largest.

GEICO has fast and efficient claim service with toll-free and collect-call telephone numbers throughout the U.S.

So if you have to report an accident or loss, you can call our claim adjusters immediately. In addition, we have a network of over 3,500 claim representatives country-wide to assist in handling your claim if necessary.

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NOTE: While you're talking to GEICO, why not ask about our rates for homeowner/renter and boat-owner coverage. Overseas coverage for military personnel is also available. And—even if you do not meet GEICO's auto policy standards—you may still obtain the same quality auto coverage and service from our affiliate, Criterion Insurance Company, at somewhat higher rates. Criterion operates in the District of Columbia and every state except Massachusetts, New Jersey and South Carolina.

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CAR 1		CAR 2		CAR 3	
Yr.	Make	Yr.	Make	Yr.	Make

*For accidents, violations, or license suspension, give dates and complete details, including cost of damages, on a separate sheet. Check for information on ☐ Homeowner's/Renter's Insurance ☐ Boatowner's Insurance

represented a half dozen or more of them in local communities nationwide.

Competitors like Allstate, State Farm, Nationwide, and others, marketing through agents who worked for one company only, were winning large shares of the auto insurance market. Encouraged, they set their sights on the other big personal line—homes and their contents. But the older companies—thanks to their newfound powers of writing multiple-lines—were able to come up with an effective defense through aggressive selling.

This was the Homeowners form, a package combining the necessary types of protection that a family previously had to buy separately. The innovation saved time in selling, in processing, and in billing, making it economical, and it was a boon to agents, companies, and customers.

Homeowners insurance had other merits: It served as the model for packages of protection in the commercial arena. By the 1960s, the trend accelerated and business packages proliferated. At first they consisted of a set of separate policies encased in a "jacket." Soon they were refined and made available to a wide market—offices, retailers, servicing firms, and many other

types of businesses needing protection.

Industries began to get the benefit of packages by 1971; six years later the insurers expanded the program to include most businesses, institutions, and governmental and nonprofit organizations.

All these progressive moves were on an industry-wide basis, with many insurers participating. In time, individual companies committed to the concept developed their own policies with distinctive features of one kind or another designed for different strata of the commercial world.

The Royal Insurance Co.'s program, for example, is focused on varied risks within the small to medium business ranks. Royal's top-of-the-line business owners package is the deluxe—offered with the broadest scope of protection. Next comes the custom model for the client needing coverage against fewer perils than those more vulnerable. Finally, there is the economy form to accommodate those who purchase on the basis of cost.

Continental Insurance Companies, an early leader in the package philosophy, produced the Comprehensive Business Policy designed for the somewhat unusual or larger business with

specialized protection needs. It allows lots of leeway on mandatory coverages as well as choice of options.

Recently, Continental introduced its Comprehensive Business Income Protection, which combines several ways of covering interruption to virtually all types of earnings. Not only can income be insured against interruption by a wide number of perils—even "all risk"—but the package can be written to fit the nature of a particular firm and the most likely dangers. If any specified peril knocks out business facilities, income is continued at its normal rate until repairs are completed, and longer in some cases.

Today, these convenient, streamlined products have come to be taken for granted. But the fact is that they revolutionized the insurance industry.

Broader Life Coverage

Life insurance executives spend much of their time concentrating on innovations. Ian M. Rolland, president and chief executive officer of Lincoln National Life, says: "The need for flexibility in our products will arise in response to a number of societal trends. First, wide fluctuations in the economy

Lloyd's Comes to New York

The following message recently highlighted an advertisement in some leading daily newspapers:

"In the past, anyone who wanted high-risk insurance probably got it from Lloyd's of London... though it was no easy job going about it. Well, say cheerio to all those problems, and hello to the New York Insurance Exchange. A group of U.S. investors have gotten together to give you the same coverage you've been getting in London. Right here in New York."

The advertiser was the American International Insurance Group, one of the country's most progressive insurers and international underwriters. The ad copy sums up the reaction of leading insurance executives to the opening of the exchange three months ago.

On the huge trading floor of the Exchange's New York City headquarters, underwriting syndicates are helping to meet the needs of tremendous commercial risks. The atmosphere suggests a new-born

Lloyd's. Indeed, the young exchange aspires in time to write a range of business as enviable as that 300-year-old British institution.

Not many realize that while the U.S. accounts for half the premiums paid worldwide, it has permitted a staggering portion to be siphoned off by foreign interests. Of London Lloyd's \$4 billion in annual premium revenues, about one half originates in this country. Another \$2 billion in U.S. premiums are accommodated by foreign markets.

The concentration of commercial insurance transactions in one large trading room at the exchange is expected to promote market intelligence—the interplay between brokers and underwriting syndicates that has been the foundation of the London market for three centuries. As a result, the exchange will be informed immediately about terms, losses, and foreign exchange moves worldwide.

When the exchange begins to ap-

proach its full potential, perhaps in just two or three years, the American corporate community may no longer need to shop abroad for backing for the risks created by its most visionary and expansive undertakings.

This new major marketplace is essential if the U.S. insurance industry is to provide the protection that must accompany economic growth in the 1980s. And it may be fortunate that the New York Exchange has been born at a time when its capacity is not yet fully needed so that it can spend its first year or two learning to crawl before it walks.

Some writers hail the exchange as a rare opportunity for outside investors to reap profits by backing a syndicate. The more knowledgeable observers, however, advise against false hopes of quick returns. They regard early support of the project as a task primarily for the insurance industry itself. Outside capital will be needed later when the difficulties of a startup have been overcome.

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It doesn't matter if your business is a large corporation or a growing entrepreneurship, call your Commercial Union agent today to help you anticipate the right kind and right amount of protection you'll need. CU's "thinking" CAP—for long-range insurance planning.



Commercial Union Assurance Companies, One Beacon Street, Boston, Massachusetts 02108



The threat of kidnapping has spawned a new industry that converts cars into armored vehicles to protect business executives working abroad. Bulletproof windows are installed and the steel roof is laminated with fiberglass.

and in interest rates can be expected, making it more difficult for individuals and families to anticipate financial needs. Second, lifestyles will be more flexible with more movement in and out of the work force. This will involve in part: Increased consideration of early retirement followed by second careers, and two-income families with less reliance on a single breadwinner and less need for both husband and wife to work simultaneously all the time."

Mr. Rolland said that the rising number of divorces will bring changes in work patterns. And he sees a demand for broader products in connection with changes in the makeup of the family of the future.

"Longer life expectancy will produce four-generation families where adults in their sixties will feel financial responsibilities for parents as well as children and grandchildren. Also, as divorces and remarriages increase, complex family forms will develop with stepchildren and stepparents."

Finally, Mr. Rolland expects "increasing public demands for personalized treatment and, therefore, products tailored to the individual's particular situation."

For example, Provident Life & Accident of Chattanooga—the leader in the sale of disability income protection—has just introduced a cost-of-living adjustment rider. Known as COLA, the rider responds to the consumer price index and rises or falls in terms of benefits in accord with CPI fluctuations. Provident was a pioneer in providing clients carrying group life term protection with a plan to fund a significant "going-away-gift" to retirees: group term coverage equal to that enjoyed during working careers.

The Equitable Assurance Society has many unusual products. Two of these are designed to meet the requirements of the modest business establishment—Equi-Sur-Plus and Equi-Pen-Plus. The first broke all company sales records in the initial year of its availability through employers who are Equitable group insurance clients. With employer cooperation, Equi-Sur-Plus furnishes the employee individual permanent life coverage at a gross premium reduction of 10 percent. Amounts are related to earnings, up to twice the annual salary with a maximum of \$100,000. Medical exams are all but eliminated and Equitable cannot cancel the policy even if the insured leaves the company. Spouses and children are eligible for protection up

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For about \$500, chauffeurs can learn how to evade would-be kidnappers and even turn an aggressor into the victim. This anti-terrorist driving school in Sonoma, Calif., is run by former professional racing car driver Bob Bondurant.

to \$25,000 and \$10,000, respectively. Accidental death and disability premium waivers are sometimes included.

Equi-Pen-Plus permits employers to offer employees full retirement benefits through tax-deferred contributions. It gives small to medium businesses features which are normally utilized by large corporations. Administrative burdens are lifted by Equitable, which manages more than \$20 billion in pension funds for thousands of American enterprises.

Connecticut General Life Insurance Co. has staked out a leading position in the nation's fastest growing employee benefit—group dental insurance. The company covers well over five million employees and family members.

Group dental insurance protected only some three million Americans in 1965. More than 60 million now are under some form of plan and the 100 million mark is within reach by 1985.

Any alleviation of employee finan-

cial problems should be welcome to employers for obvious reasons. They might even take personal interest in a new development involving the use of dividends. Pioneered by New York Life, it makes out-of-pocket premium payments "disappear."

They must be paid, of course, but that will be done with funds generated by the policy. The need to make regular payments vanishes from a family's budget and the money can be allocated for other needs. A typical family has left life insurance premiums alone when cutting down on expenses in the past. But this year is different. The father of the family can draw a line through the figure for life insurance and not feel guilty about it.

The Risk Manager

The alert managements of the country's big businesses are aware that today's proliferating risks threaten their

prosperity—indeed, their very survival—and have expanded the role of the risk manager. This expert's basic responsibility is to protect his firm's assets by the most complete and economical plan. Insurance policies alone no longer suffice.

To begin with, underwriters in modern times have not had the capacity to undertake coverage of all the needs of corporate America. Even if insurers could take on that task, few, if any, clients could afford the cost.

And they would be foolish to try because, thanks largely to risk managers, other protective devices have been perfected. Among these are self-insurance, the greater use of deductibles, and the formation—by a manufacturer, a retail chain, or any other business—of an organization's own insurance company, which is known as a "captive."

Since insurance policies are no longer the sole source of protection, innova-



PHOTO: J. KAWLOWSKY—ETIMMA



Some 125 workers—out of 235 who were aboard at the time—were killed when the *Alexander Kielland*, an offshore oil rig used as a hotel, buckled in a storm last March and toppled into the North Sea. The exact cause of the disaster is still a mystery.

PHOTO: BRUCE GILBERT—ETIMMA



Lucky to be alive, survivors of the collapsed floating platform in the North Sea receive first aid. The crews used the rig for rest periods between drilling jobs.

tive insurers with long experience and technical resources have diversified their stock in trade.

They now offer an array of risk management products and services for commerce and industry. These facilities are valuable to firms which have professional risk executives and could be indispensable to smaller ventures without such talent.

The American International Group, Insurance Company of North America, Continental Companies, Royal Insurance Co., and others are marketing to-

tal protection plans which may differ in degree but not in concept. The risk management package includes:

- Identifying exposures and assessing the impact of a loss from each one.
- Cash flow analysis and handling.
- Choice of financing protection costs involved.
- Loss control engineering and reporting.
- Claims adjusting.
- Self-insurance—claims management, accounting, loss prevention.
- Captive insurance companies—

general management, underwriting, actuarial and accounting service, and policy issuance.

- Counsel on occupational health, rehabilitation of injured workers, industrial hygiene.

John Cox, president of the Insurance Company of North America, points out that risk managers will increasingly depend on insurers to provide one-stop shopping by underwriting a corporation's total exposures. The giant enterprise also benefits in a sense by a package of services and protection that is larger and more complex than the standard assemblages of coverage.

Although a basic objective of a total risk management program is to reduce the outlay of funds for traditional insurance policies, the variety of protection purchased will often increase.

That apparent contradiction is due to, among other causes, businessmen's increasing vulnerability to damage suits, to seemingly remote threats materializing and to the development of procedures involving new exposures. For example, the directors and officers of any company are targets today for suits based on their alleged errors or omissions in performance.

The public's ideas on the liability of directors (inside and outside members) and officers have been influenced by sensational lawsuits and by newspaper

"There Is Life After Orbit."

by Scott Carpenter

"Today, the word space is more likely to mean personal territory than that timeless mystery my fellow astronauts and I explored nearly two decades ago.

"Of course, no accomplishment exempts me from having to bear the burden of advancing age. Even the rare distinction of being one of the few human beings ever to experience the weightlessness of space flight.

"But at 55, life is still a journey aboard an Aurora 7 of sorts (the original, of course, being named after the Aurora Borealis and, coincidentally, the house at 7th and Aurora where I was born in Boulder, Colorado) because, in a sense, I've never really stopped exploring.

"Since then, I've explored the world under the sea. I've lectured on oceanography to students with eager minds and big ideas. I've spent time alone testing my endurance on the ski slopes. I've played a lot of tennis. And I've even looked for sunken treasure.

"But it's not what I've done that gives me the security I need. It's the feeling of being constantly challenged. Of not having limits. And part of not having limits is not being limited by a body that's under-exercised and flabby.

"At Cape Canaveral I kept in shape by working out on a trampoline, tumbling and lifting weights in an empty hangar.

"Of course, I don't have my own hangar. But I've got a job as vice president of a manufacturing company that keeps me deskbound a good part of every day. So every morning I do the Canadian Air Force exercises without fail. This way, if my schedule doesn't allow me a game of tennis or a day of skiing, I don't have to worry about fitness.

"I figure it this way, you really don't have to have been on top of the world to feel like it. But for those of us who were, it sure was one hell of a view."



Scott Carpenter

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Why not call your Penn Mutual agent and find out about the rest?



The Penn Mutual Life Insurance Company,
Independence Square, Philadelphia 19172

Risk Management



Techniques of risk management once considered suitable only for corporate giants are now being successfully used by smaller businesses to cope with expanding liabilities and higher insurance costs.

A brief review by INA of an insurance topic of interest to business executives.

Few companies with annual sales of less than \$25 million employ a risk manager. But because of continuing inflation and its effect on insurance costs, many such firms are gradually adopting risk management techniques to attain more cost-efficient financial and insurance programs.

Full-service commercial insurance companies will assist in assessing risk management alternatives to first-dollar risk transfer and in structuring the program which best fits the individual company's needs.

Some of the techniques coming into more widespread use include participating group coverage in

property and general liability, self-insurance (with professionally supplied services such as claims handling and loss control) and association captives.

In addition, specialized package policies have been developed to deal with the unique needs of specific types of business. A package policy can help eliminate wasteful overlapping and superfluous coverages, as well as unsuspected – and possibly costly – coverage gaps. Together with a companion workers' compensation policy, they can meet most of the insurance needs of various types of firms – among them druggists, jewelers, appliance dealers, contractors,

broadcasters and financial institutions. Package policies are also available for such nonprofit organizations as schools, colleges and churches.

Risk pooling

While package policies can be bought individually, a growing number are purchased through safety group plans. Typically, the initiative comes from an insurance company representative who proposes an industry-tailored policy for the members of a trade association. If the association endorses the policy, it generally recommends it to its members, but members are free to join or not as they see fit. Each member accepted for insurance is issued an individual policy, usually written at standard rates.

The possibility of an annual dividend being paid to the policyholders of a group is the chief attraction of safety groups. While dividends are never guaranteed, they are declared if the group's loss experience is sufficiently favorable. Dividends have ranged from 1% of

for Small Businesses

the premiums paid to over 25%. Adherence to a loss reduction program often accounts for favorable loss records on which dividends can be based.

For example, for 1978, each member of the Northern Ohio Retail Grocers Association safety group received a dividend equal to 16.7% of the premium paid for that year. In 1977 the dividend was 5.7% and in 1976 it was 6.3%.

Self-insurance

As a means of partial self-insurance, higher deductibles are increasingly employed by many smaller companies. Implicit in any high deductible program is a need for some form of risk management to control the company's greater dollar exposures.

As an instance, a California manufacturer of sporting equipment retained a \$25,000 per occurrence deductible on product liability, in order to secure insurance coverage above that retention. In this case, the insurance carrier also provided loss control consultation which led to a formal program and

the hiring of a safety engineer.

Full retention of a given risk is also coming into greater use as a form of self-insurance. The risks chosen are generally characterized by occurrences of relatively high frequency but low severity.

For example, an Indiana commercial laundry has a fleet of fifteen delivery vans, for which the risk of physical loss or damage is entirely assumed by the company. (Liability insurance for the fleet, however, as well as fire insurance while it is garaged, is covered by commercial policies.) The laundry enforces a loss control program for the fleet which includes numerous preventive measures in both maintenance and operation, thereby improving its loss experience.

Association captives

While most captive insurance companies are wholly owned subsidiaries of large companies, more and more small businesses are making use of the captive concept through association captives. An association captive is usually formed by a trade association for

the benefit of those member companies who wish to join it. Over 50 association captives are now in operation, nearly all of them started within the last four years.

The formation of an association captive can be attended with numerous pitfalls and should not be undertaken without expert legal, financial and insurance advice. If a study suggests that a captive is advisable, insurance brokers and some insurance companies — including INA — can be instrumental in its creation and management.

Comprehensive services for business

Recognizing and meeting complex needs, such as those of small businesses, typifies INA's comprehensive approach to increasingly sophisticated business insurance and risk management problems.

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance, financial, and health care interests. In property and casualty insurance and risk management services, life and group insurance, health care management and financial services, INA and its affiliated companies offer a unique combination of products and services to business and industry worldwide.

For an informative booklet on risk management for small businesses, write INA, 1600 Arch Street, Philadelphia, PA 19101.

Suggestion for smaller firms: "Rent-a-captive"

Lacking an association captive, a company may find it worthwhile to "rent" the use of a separately owned insurance organization, particularly for coverages otherwise difficult to obtain.

In such a rental arrangement, the insurance company issues a policy to the renter and the renter's account is segregated for experience purposes. This arrangement is backed by some form of security, such as a deposit of funds or a letter of credit. The ultimate premium may then reflect the low cost of a "captive" operation, as well as the renter's individual loss experience.



INA
The Professionals



Massive stubs are all that remain where the Alexander Kielland once perched above the stormy North Sea. There was no warning to those aboard the floating hotel when huge waves collapsed one of its five legs and toppled it into the near-freezing waters.

headlines. Shareholders who are unhappy about any alleged breach of responsibility by directors and officers are eager to sue them. Liability coverage for directors and officers became a must, and insurers were ready to write the protection.

As to seemingly remote threats materializing, consider the kidnapping of business executives—now a very frightening fact of life. How frequently does this act of terror occur? Frequently enough for American International Group (AIG) to headline an advertisement with this warning: Your chances of being kidnapped are greater than your chances of being killed in a plane crash.

Joseph DeAlessandro, president of National Union, an AIG company, says there is probably no area in the world that is free from the threat of kidnapping, and such terrorist acts are unlikely to slow down.

Terrorist activities have prompted at least five organizations to write kidnap and ransom coverage: London Lloyd's, American International Group, Chubb and Sons, Insurance Company of North America, and Professional Indemnity Agency.

How modern developments test insurer innovation was dramatically illustrated by a recent tragedy when an oil field platform being used as a floating hotel for workers somersaulted into the North Sea near Stavanger, Norway, with a heavy loss of life and injuries. The equipment was reportedly insured for \$65 million. Participating U.S. insurers were All American Marine Slip and American Offshore Insurance Syndicate. The overall protection was arranged through the Norwegian Oil Rig Pool, and London reinsurers later assumed a share of the risk. This catastrophic loss was met without fanfare or strain by insurers innovative enough to have developed the necessary policies to restore the owners to economic health.

Another outstanding feature of insurance company risk management services is the aid extended to "modest" or even "small" clients. Such firms usually do not have their own risk managers. The Insurance Company of North America points out that when they use high deductibles these clients need counsel to safeguard their greater dollar exposures.

A California manufacturer of sport-

ing equipment, for example, retained a \$25,000 per occurrence deductible on product liability in order to secure insurance coverage. The insurer also provided loss-control consultation which led to a formal safety program and the hiring of an engineer.

Full retention of some risks is also coming into greater use as a form of self-insurance. The risks chosen generally have a relatively high frequency but comparatively low severity of loss.

An Indiana commercial laundry, for instance, had a fleet of 15 delivery vans. The risk of physical loss or damage is entirely assumed by the laundry. Liability insurance for the fleet, however, as well as fire insurance while it is garaged, is covered by commercial policies.

The laundry enforces a loss-control program for the fleet which includes numerous preventive measures in both maintenance and operation.

The Electronic Insurer

Every local retailer, wholesaler, and service representative is familiar with independent insurance agents, and probably relies on one of them for pro-

A New Challenge— Covering Environmental Risks

After struggling to meet the 1977 standards of the Federal Water Pollution Control Act, business now must face even tougher new rules and a compliance deadline set for 1983. Meeting new standards by 1982 will cost industry at least \$1.7 billion for water pollution control and \$1.2 billion more for related solid waste control. Some organizations may have to invest more than \$100 million for special equipment.

On top of that, the act also sets stringent standards for toxic substances and prohibits the discharge of oil or hazardous effluents into navigable waterways. The potential liabilities are staggering. Those affected by water pollutants from a plant may sue the manufacturers; violators may face stiff fines and other punitive actions.

Anticipating these risks, Alexander & Alexander, the insurance brokerage firm, developed programs that cover the costs of compensating for damages and for restoring the environment, particularly for the increasingly complicated problem of air pollution. A. & A. believes the issue of environmental protection goes to the very heart of asset conservation and the issue of liability. No longer are traditional insurance procedures sufficient to cover real and implied environmental risks. Alexander & Alexander's solution is a choice of financial vehicles for asset protection. In many cases there can even be special coverages for retroactive liability.

To sustain innovation in insurance and financial programs, the firm has established an Insurance, Marketing, Planning and Coordination Team (IMPACT). By working with specialists such as industrial hygienists, chemists and engineers, IMPACT can offer expert counsel on ways to cut down environmental risks. This may involve altering a product's composition so that it complies with federal regulations.

In the next 10 years, Alexander & Alexander foresees public environmental policy continuing to change in costly new ways.

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tection. The businessman pays him the tribute of taking his performance for granted. But it's a rare customer who knows what goes on in the agent's modest premises when he goes about the task of guarding against calamities of every kind.

The customer would be surprised to learn, for example, that an agent can figuratively summon to the local community the resources of a half dozen or more of the billion-dollar organizations he represents. These commercial insurance giants respond to personal and business protection requirements of all dimensions.

The agent has commanded such cooperation for decades. But now he is within reach of an improved system that will all but transfer the headquarters of branch office facilities of billion-dollar insurers to Main Street, U. S. A. That improved system is electronic data processing—EDP.

John W. Folk, chairman of Reliance Insurance Companies of Philadelphia, is also the chairman of Insurance Institute for Research, a nonprofit organization that has made rapid progress toward broad scale realization of EDP linkage of agents and their companies. Mr. Folk's interest in EDP traces back

to studies in his own organization. At Reliance, he reports, ongoing inquiries into processing costs and the problems posed by avalanches of paper revealed that something had to be done when it was found that:

- Twenty-five percent of the company's human resources was being used to create paper records, to store the paper created, and then to look for the paperwork that was often misfiled.

- Eighty percent of the paper placed in file cabinets was never referred to again until it was retrieved either to be destroyed or removed to a secondary location to be stored again as a paper record or on microfilm.

- Starting in 1985 there would be a shift in the distribution of the work force toward more experienced, longer-term employees. There would be fewer 18 to 25-year-olds in the working population and electronic processing systems would be needed to fill the personnel gap.

Reliance management decided to change its way of doing business. Its aim: to be "Paper Free in 83." Mr. Folk also hopes to see other companies and independent agents achieve paper-free operations.

To accomplish that, in 1978 the Inde-

pendent Insurance Agents of America (IIAA) and a group of companies organized the Insurance Institute for Research.

One of the organization's prime objectives has been to make it possible to connect a terminal in the local agent's office with the computers in the headquarters or branches of all the insurers represented. The companies and their agents would literally be at each other's fingertips to exchange underwriting information and decisions, rate quotations, and data necessary for prompt loss payment.

Here is how Mr. Folk pictures the insurance agency of the relatively near future will look:

- Computer terminals will be as commonplace as calculators are today. And there will be as many variations in the size and type of terminals as there are in calculators.

- The office staff will not be looking at, shuffling, or writing on paper. Instead they will be looking at cathode ray tubes (CRTs).

- File cabinets will all but disappear because manuals, reports, and information will be on disks. As much information will be stored in computer systems about the size of an electric typewriter as is now contained in 30 volumes of the Encyclopedia Britannica plus the Manhattan telephone directory.

- Desk trays labeled "in" and "out" will be among the missing because information will be sent electronically to another person in the office or across the country with equal ease. Correspondence will be held in an electronic queue, not in the "in" basket.

Obviously, similar changes affecting a greater range of activities will modernize the operations of insurance companies, at both headquarters and branches.

The significance of these improvements to the business community cannot be overestimated. Linked in a system that will free them from detail, the insurers and their agents will be able to concentrate on a goal they have long envisioned: Providing the consumer with the soundest protection, the most efficient service, and the most equitable loss payments—all at the lowest cost consistent with quality.

Through these and other innovations the insurance industry is now propelled on a course that will permit it not only to keep pace with modern technology and business practices, but also to pioneer further changes that will benefit business in particular and society as a whole. □

How Well Is Your Computer Covered?

Countless businessmen have already bought or leased their first small computers, creating an explosive market for insurance among small and medium-sized firms.

In the past few years, computers once costing \$1 million or so have dropped to a quarter of that cost. And electronic manufacturers have begun marketing smaller devices that almost any modest organization can afford. The typical first-time buyer knows his new minicomputer will handle payroll, billing, inventory, general ledger, purchasing, scheduling, and other important functions faster, more cheaply, and with fewer errors. But he probably does not realize that his new electronic ally will also boost the likelihood of financial loss.

Harry Miller, vice president of Reliance Insurance Co., points out that businessmen often think that their new computers are automatically covered—as a new typewriter

or drill press would be—by their special policies protecting them against multiple perils. And it's true that a typical package provides some coverage. But it does not extend to certain perils to which delicate computers are especially vulnerable.

Mr. Miller warns businessmen who lease their computers not to assume that they are protected by the type of insurance most leasing operators arrange on the hardware they rent out.

When an electronic brain is damaged or destroyed, the user may sustain losses he probably never contemplated. All the information he needs to run his business can be suddenly wiped out. He could be left with no way of knowing who owes him money, who has ordered what, which orders have been filled, which bills have been paid and which are outstanding, what's in stock and what's on order.

If the answer is "no," you should think carefully about whether they are the right people to be providing coverage to a growing company like yours.

Why?

Because an insurance company has to know the territory. Even better than you do.

Doing business in different places means complying with different laws, different requirements and different regulations of every kind. Even in this country, what's fine in one state may be prohibited in another. And when an insurance

DOES YOUR INSURANCE COMPANY DO BUSINESS IN AS MANY PLACES AS YOU DO?

company's services go beyond insurance—as they should—into loss control, accident prevention, engineering, financing, construction bonds and even local real estate valuation—the need to know that territory becomes even more important.

But, since no businessman or businesswoman can foretell exactly where he or she will be doing business in the future, how can you pick the right insurance company today?

Simple. Find a company that does business everywhere. (Or almost everywhere.)

Like The Continental Insurance Companies.

The Continental Insurance Companies offer one of the most comprehensive collections of insurance coverages and services available from any insurer here or abroad. Packaged or individual policies—including boiler and machinery—for any size business. Bonds of all kinds. Marine and aviation coverages. Life and accident & health insurance. And Continental offers supplemental services ranging from premium financing to loss control and accident prevention programs to data processing. Plus one of the most efficient claims services in the industry.

And, what's more, we offer these Continental products and services just about everywhere in the U.S. and abroad.

Call your Continental agent—listed in the Yellow Pages—and find out all about our network of products and services. You'll discover that doing business with the Continental organization will not only make it easy for you to expand but will probably

save you money as well. Because, in most cases, it's costly to change insurance companies or find one that writes particular coverages in a given locality.

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NEVER
OUTGROW US.** The Continental Insurance Companies. We're not too big for you now. We'll never be too small for you in the future.



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Gas Rationing Comes Up Short

ALTHOUGH GAS LINES have all but disappeared, the possibility of a gas shortage as the peak summer driving time approaches—and while the oil-producing areas of the Middle East remain politically unpredictable—is never far off. One solution to the nation's energy problem, of course, is gas rationing. To learn what you think of that, our Sound Off question in April

**"We have already
seen that price
is the most
effective and
speedy rationer."**

asked: "Will rationing reduce gasoline consumption?" By a margin of nearly two to one, you voted that it was not the way to go.

Even many of those who acknowledged that rationing would curb consumption were not at all happy with the prospect. "The effect on the business climate will be frightening," says Robert Wernsman, general manager, C-W Management, Inc., Bloomington, Ill. "Let supply and demand work, please. How can you justify another bureaucratic arm of government costing the taxpayers two billion dollars to administer?"

J. Wayne Reid, owner of the J. Wayne Reid real estate agency, Tremonton, Utah, says: "Yes, but I know of no one I would want to trust with administering it. I would prefer that a heavy tax be placed on gasoline and insist that the tax be local and used to develop alternate sources of energy."

The aversion to creating another federal agency was shared by most respondents who thought that rationing would not reduce consumption, and the problems surrounding the sale of coupons was the most frequently cited reason why rationing would fail. "Gasoline rationing will create another bureaucracy which will allow the wheeler-dealers and racketeers to use all the fuel they want with no change in life or business style," says Robert

Slayter, regional sales manager, Vaughan-Jacklin Corp., Shrewsbury, Mass. "Those of us still around since World War II remember the counterfeited coupons and black market gas, tires, etc. I feel that to date the driving public has done a commendable job in reducing consumption of gasoline." Says Ted Means, personnel manager, Houston Lighting & Power Co., Houston, Texas: "We have already seen that price is the most effective and speedy rationer."

Few who responded on either side of the question doubted that price is an effective means of reducing consumption; the issue was fairness, especially for lower-income drivers. "Although no system will be fair and equitable for all, coupon rationing to owners of registered vehicles is the best method for reducing consumption," says Joseph W. Best, manager, Suburban Savings Association, Pittsburgh, Pa. "This will enable each owner to get a fair allotment without having to pay any additional price increase." Others preferred basing the allotment on licensed drivers as fairer still, and as a deterrent to the buying of old junk cars just to get a larger ration of gas.

Respondents on both sides had many other suggestions for saving gasoline, including restricting driving to certain days of the week, closing all businesses on Sunday, prohibiting driving on Sunday, prohibiting all students from driving to school if bus service is available, and ending school busing for the purpose of desegregation.

"The answer to the gas problem includes both taxing and rationing," says George E. Motz, owner of Motz Landscape Maintenance, Stuart, Fla. "Everyone should be issued ration coupons for tax-free gas. Once these are used, everyone would pay the heavily taxed price for gas."

And while many, like Mr. Slayter, remember rationing during the Second World War as a failure and a source of fraud, others had quite different memories. "Many of our government people say it won't work, but it worked during World War II, along with wage and price controls," says Bruce Mallonee, president, Streater Brick Systems,

Inc., Streater, Ill. "At least people wouldn't be driving three or four blocks to the store to buy a loaf of bread. Our teenage people wouldn't be driving around the block downtown three or four hours every night."

Some say that Americans need to be jolted into doing something about conservation, whether it involves high prices, rationing, or some other measure. "The only way we Americans will cut down on anything is only if it is too expensive to afford or unavailable," says John Q. Cotten, sales department (advertising) at A. E. Finley & Associates, Inc., Raleigh, N. C.

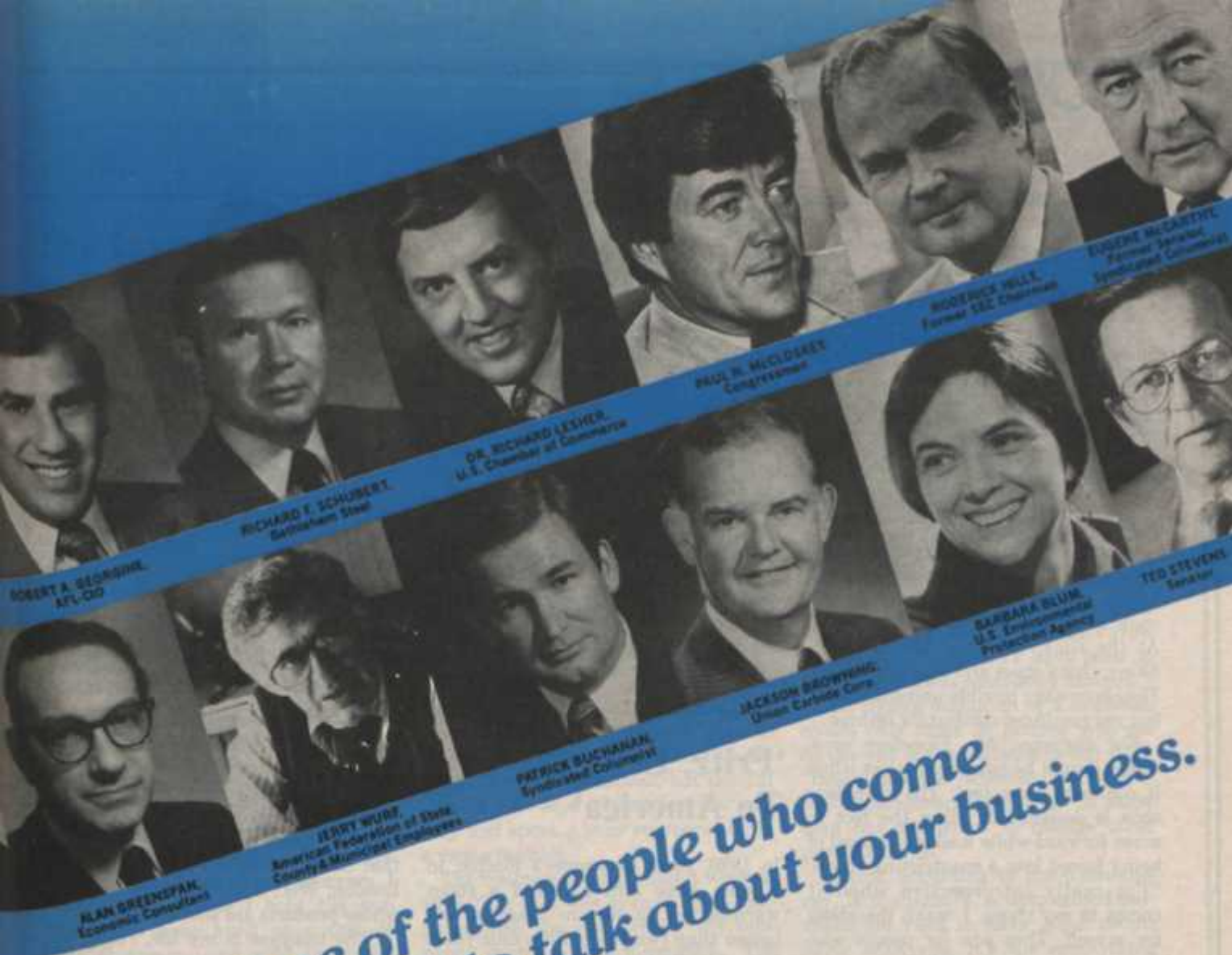
And Thomas M. Ogg, assistant vice president, Westbury National Bank, Houston, Texas, concludes: "For the first time the American people are realizing that our supply of fuel will end. Rationing will have the same effect that a forced diet would have on an extremely obese person."

A number of readers suggested that a greater emphasis on alternate energy sources might solve the problem without rationing or further price increases. "Rationing may lull us to a

**"How can you
justify another
bureaucratic
arm of the
government?"**

softening approach in the energy crisis and delay positive programs that will help us become more self-sufficient," says N. A. Todoroff, plant manager, foundry and railroad division, Sloan Valve Co., Melrose Park, Ill. "Rationing should occur only if there is a military necessity."

And David Van Fleet, president of National Music Service, Inc., Anaheim, Calif., expresses a common feeling. Says he: "Rationing would have to be administered by the government, and it has proved many times that it is incapable of administering anything without graft, without error, and accomplish the desired results." □



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Feet Should Be Free And Funny

Shoes with a sense of humor? Sure, says Joe Famolare, creator and maker of the highly popular wave-soled shoes. "My shoes say things to people. They are positive, not regressive. They are attractive, and they laugh at women who are locked up in their high-heeled and ankle-strapped shoes."

He chuckles as he remembers the days when he locked up his own feet in highly buffed Cordovans. "Boy, you could really put a shine on those shoes. At the time, that was the in thing. Shiny, shiny shoes and sharkskin suits. The shoes were terribly uncomfortable, but you sacrificed comfort for fashion."

Not anymore, Mr. Famolare says. There should be no compromises when it comes to your feet. The Famolare shoe is designed to allow the foot to move forward while walking instead of being forced into a constricting shape. "I'm really introspective when it comes to my shoes. I make the shoes for myself. They are for people who want to move about freely."

Mr. Famolare's father was a shoe-maker in Boston, Mass., where Joe first became intrigued with design. He went to work for Capezio as a designer, before decid-

ing to go into business



Joe Famolare believes that his shoes are the wave of the future in comfortable walking. "No restrictions on feet," he says.

for himself. His initial product was a version of the comfortable clog; now his shoes come in many styles and materials and appeal to many types of people. "A station wagon stopped in front of the store," he says, "and seven nuns got out. They walked in and tried on shoes, had a wonderful time. And bought seven pairs of shoes."

Relaxing in his townhouse office in New York City, Mr. Famolare, 49, is surrounded by purple. His rugs, draperies, and Famolare flag are all done in purple, with touches of the color sprinkled throughout the four-story building. "Purple is a driving color. It can be funny, passionate, and strong. It is exemplary of our attitude toward business, and we use it whenever we can without boring people too much."

'Fritz, Let's Go To America'

In 1926, Fritz Bernegger's mother in Vienna gave him \$26 and a stern warning not to stay in America any longer than two years. Fifty-four years later, Mr. Bernegger is still here, making sausage.

"I worked in a butcher shop in Austria, but times were bad and getting worse. So when my friend Heine suggested we go to America, it sounded like a good idea. Seventeen boys came over with me, but I was the only one who stayed."

Mr. Bernegger had really wanted to be an



Fritz Bernegger stayed in America to make sausage, ignoring his mother's warning.

electrical engineer in Austria, but the big companies weren't hiring then. So when he reached St. Paul, Minn., he turned to sausage-making. Before long, he and a partner named Schmidt opened a small meat market, and from that came Hillshire Farm Co. of New London, Wis., a \$100 million business whose products are sold nationally.

"The business is my life," says Mr. Bernegger. "I don't ever expect to retire. It surprises me sometimes to see how the company has developed."

"And I know that I could never do it in today's economy. The small butcher shop is obsolete."

Mr. Bernegger travels to Austria regularly now, but it wasn't until 1950 that he heeded his mother's advice. "We thought lots of times about going back for a visit. But we were always so busy, the time goes away, and we think, maybe next year."

"We go back often now. But when I am away even 10 days, I get homesick. I was never homesick as a young man. When I came to America, I was only 22 years old, right? An immigrant. Couldn't speak the language. And then I got my own business, so I worked hard, and the plant grew from one person working for us to 1,200 people."

"Today, we make and distribute more than three million pounds of meat every week, all over the United States. That's 1,000 pounds of sausage a minute," he says.

The Inventor Who Sailed to Work

Seven years ago, James K. La Fleur was sailing in the Caribbean when he was asked to join the board of directors of GTI Corp. of San Diego, Calif. He accepted and commuted to board meetings between cruises. The idyllic work-style might have gone on indefinitely, but three years later his fellow directors asked him to take the helm of GTI, which was skirting bankruptcy.

"The company was an organizational disaster," says Mr. La Fleur, "losing \$2.6 million and barely 90 days from Chapter XI. I had never run an electronics outfit before." He had, however, run two companies of his own before retiring at 39 to go sailing.

"My first company I started with a drafting board and the \$900 I got from selling my MG," says Mr. La Fleur, an engineer and inventor. "I had a potential customer for a high pressure gas pump for the Atlas missile program. I designed the pump—I hold 134 patents—had three built at a cost of \$40,000 apiece, and sold them for \$24,000. I was instantly broke."

Mr. La Fleur figured that things could only get better—but they didn't. At least not until he stumbled on a Teflon seal that was being used in air compressors. "It was the key to success," he says. "It saved an enormous amount of money." It also meant that Mr. La Fleur's company would survive.

Survival for GTI, however, was more perilous. When Mr. La Fleur came aboard in 1975, he chopped the corporate staff from 32 to nine and consolidated the nine scattered plants into three divisions, "getting rid of the losers to produce more winners."

Eliminating the losers meant cutting adrift 500 people in the company's capacitor plant. "I got all the employees together and told them we had one month to pick up production. Six weeks later, I gathered them together and said: 'Sorry, we didn't make it.' If you fail, you fail. There's no getting around it."

But GTI managed to come about. Today, its three divisions produce sales of

more than \$20 million a year for circuit boards, electronic components, and plastic and metal packaging closures. To keep GTI on course, Mr. La Fleur, 50, relies on his board of directors, all chosen for their practical experience and expertise in engineering.

"The characteristic of most public corporations of any size is that the management and directors spend most of their time fending off disaster and trying to find prudent risks. Well, the world's industries were not founded on prudent risks."

An Accountant Who Changed His Mind

George M. Ryan was flat on his back when he devised a business plan to start CADO Systems Corp. in Los Angeles. "I was immobilized, but not out of work," he says. "I had had disc surgery and spent a year recuperating in a prone position."

The business strategy didn't work in 1976. The idea was to hook up a computer with the line printer the telephone company had developed. "The phone people were precluded by law from doing data processing," says Mr. Ryan. "So I thought of producing data programs that would be compatible with AT&T. They yawned."

Mr. Ryan's prowess at selling was vindicated later. CADO, which means computer aided document origination, found a niche overlooked by the other Davids and Goliaths

of the industry. CADO's was the first computer with a data screen designed for the small business. Today, the company produces more than \$40 million in sales annually and has just introduced a teach-yourself computer system that will be sold in office supply shops.

"I started life as an accountant," says Mr. Ryan. "You know the joke: A man becomes an actuary because he doesn't have the personality to be an accountant. I decided pretty early on I wanted to make things happen, not just keep track of them."

The super salesman lurking behind the CPA exterior required more than a phone booth to change his life-style. "Selling is something you're born with," says Mr. Ryan. "You can't grow a salesman. I shouldn't have been in accounting. I was absolutely miscast."

Mr. Ryan's definition of a salesman covers only those 20 percent who get 80 percent of the business in any field. "Being called a salesman is the ultimate compliment," he says. "A salesman has the power to change other people's minds."

Selling, according to the Ryan theory, is compulsive, a deep-seated psychological need to have other people agree with you. It's the same thing that drives a top athlete. "Salesmen are usually mild-mannered, introverted types, basically shy, even if they cover that with bluster," says Mr. Ryan, 58. "But whatever their outward

demeanor, selling is second nature to them. The real salesman is something of a Jekyll and Hyde character." □



George Ryan and his wife, Beverly, like the challenge of crossword puzzles when he's not selling small business on the necessity of CADO computers.

Small Business Needs More Than Good Intentions

THE REPORT of the White House Commission on Small Business is less than meets the eye. While not surprising, that is unfortunate because the report—based on 60 recommendations from the January conference on small business—was intended to be the definitive plan to revitalize small business.

Instead, the report conveys the impression that the commission consists of people who are familiar with the problems of small business, but who seem determined not to recommend anything that would cause President Carter any trouble.

The conference recommended, for example, a freeze on minimum wage standards at 1980 levels (with an exemption for teenagers and part-time workers) and repeal of the Davis-Bacon Act, both unpalatable to union leaders. The commission acknowledges that the former would increase employment and the latter would reduce costs, but dismisses both as unlikely to be approved in an election year.

A second example: Inflation is the number one problem for the economy. To bring it under control requires a reduction in federal spending, slower growth of the money supply, and fewer government restrictions on private economic activity. The commission acknowledges the severity of the problem, but offers no solutions.

Still another example of the commission's cop-out is capital formation. Inflation plus current tax and regulatory policies combine to discourage savings. As a result, the U.S. has the lowest personal saving rate among industrial nations, and many businesses have to dip into capital to pay taxes.

The solution? Change tax policy. Lower the graduated tax rates for both businesses and individuals, which would stimulate savings and investment. Enact a depreciation system simple enough for small businesses to use and generous enough to permit capital recovery even in inflationary times. Depreciation reform with the best chance for passage is the Jones-Conable Capital Cost Recovery Act—the 10-5-3 bill—yet the commission does not support this bill or offer any alternative.

As for regulatory reform, the commission's analysis indicates a good grasp of the problems, but its sole recommendation—"require all federal agencies to analyze the cost and relevance of regulations to small businesses"—is so general that it barely qualifies as a statement of good intentions.

By contrast, regulatory agencies should be required to analyze the economic impact of proposed rules and choose the least costly alternative. The rules should be scaled to the size of the activity being regulated, subject to congressional veto, and periodically reviewed for effectiveness. Finally, to keep the regulators honest, their actions should be subject to judicial review, with the burden of proof on the regulator, and they should be required to pay the court and legal fees of those they prosecute unsuccessfully.

Unfortunately, good intentions are not enough. The report's gentle generalities leave too many loopholes—some large enough to drive a bureaucrat through. The commission has followed the tradition of so many other White House reports, prescribing little more than a placebo. □

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